I. ECONOMIC ENVIRONMENT

(1) OVERVIEW

1. Argentina recorded annual GDP growth averaging 7.1% in real terms between 2006 and 2011, but the economy slowed abruptly in 2009 in the wake of the international economic financial crisis. GDP then expanded by roughly 9% in both 2010 and 2011, fuelled by vigorous domestic demand and a strong export performance. This growth performance produced a doubling of per capita GDP in dollar terms, from US$5,424 in 2006 to US$10,896 in 2011, together with a reduction in unemployment and poverty. GDP growth was weaker in 2012, however, at 2.4% in the first half of the year in relation to the same period in 2011.

2. Argentina's economic growth was largely driven by the increase in domestic demand, although its exports have also benefited greatly from favourable international conditions. The country's fiscal accounts have continued to generate a surplus, mainly thanks to increased revenues, a large proportion of which comes from taxes on consumption, income/profits and international trade. Nonetheless, inflation has also been accelerating, with the Greater Buenos Aires Consumer Price Index rising by 10.2% in the 12 months to October 2012.

3. The authorities have continued to promote a deepening of the credit market to finance the development of the various productive sectors. Following a peak in 2009, the balance-of-payments current account surplus retreated sharply in 2010 and 2011, partly because imports of goods and services outpaced the corresponding exports, but also because outflows of investment earnings increased significantly.

4. The Argentine authorities have been implementing a model that they define as growth with social inclusion; and to attain the model's economic and social objectives, the authorities have adopted measures addressing income, fiscal, monetary, and trade policies, which in some cases are not the most suitable for efficiently achieving the goals being pursued. For example, attempts have been made to decouple the effects of variations in the international prices of export goods from their prices on the domestic market, by negotiating domestic supply agreements with producers and by imposing export duties; exchange restrictions have been adopted and import control measures have been strengthened.

(2) MACROECONOMIC TRENDS

(i) Structure and evolution of the economy

5. In response to robust international demand for raw materials and agricultural products, the sectoral composition of the Argentine economy changed in various ways during the review period (Table I.1). The agriculture sector recorded above-average growth, thanks to the favourable international business climate, which translated into high international prices for Argentina's exports. The GDP share of the agriculture sector (including fishing and forestry), measured in current prices, rose from 7.5% in 2006 to 9.6% in 2011 (9.8% in the first half of 2012), largely reflecting higher agricultural prices. The authorities reported that the agriculture share of GDP, measured in volume terms, declined by one percentage point in the period 2006-2011. The share of manufactured goods in GDP also shrank, despite strong domestic market performance, partly owing to the loss of competitiveness caused by the real appreciation of the Argentine peso during the review period. Services regained their GDP share during the period.

Table I.1
Basic economic indicators, 2006-2012

	2006	2007	2008[a]	2009	2010	2011	2012[a] (June)
I. Gross domestic product (PIB)							
Current GDP (Arg$ billion)	654	812	1,033	1,145	1,443	1,842	2,074
Current GDP (US$ billion)[b]	214	260	326	306	368	448	415
Real GDP, growth rate (%)	8.5	8.6	6.8	0.8	9.2	8.9	2.4
Per capita GDP (US$, current prices)	5,544	6,660	8,274	7,643	9,092	10,896	..
By branch of economic activity			(% of current GDP)				
Agriculture, hunting, forestry	7.5	8.4	8.8	6.7	9.0	9.6	9.8
Fishing	0.3	0.2	0.2	0.2	0.2	0.1	0.1
Mining and quarrying	5.5	4.4	3.5	3.4	3.3	3.1	3.3
Manufacturing industries	20.6	19.5	19.5	19.6	18.8	18.9	16.9
Electricity, gas and water	1.5	1.4	1.2	1.2	1.1	1.0	0.9
Construction	5.3	5.7	5.5	5.3	5.1	5.3	5.2
Wholesale, retail and repair trades	10.6	10.6	10.9	11.2	11.2	11.6	11.9
Hotels and restaurants	2.5	2.5	2.4	2.4	2.3	2.2	2.2
Transport, storage and communications	8.2	7.9	7.8	7.6	7.4	7.3	7.5
Financial intermediation	4.3	4.5	4.7	5.2	5.3	5.2	5.8
Real estate, business and rental activities	10.1	10.1	10.1	10.6	9.7	9.1	8.8
Public administration and defence	5.1	5.4	5.6	6.4	6.3	6.5	7.0
Education, social services and health	7.2	7.6	7.8	8.5	8.0	8.2	8.8
Other social community service, personal and domestic service activities	3.8	3.8	3.7	4.2	3.8	3.5	3.6
Financial intermediation services, indirectly measured	0.7	0.7	0.7	0.9	0.8	0.8	1.0
Value added tax	7.5	8.0	8.2	7.9	8.3	8.5	8.6
Import duties	0.8	0.9	0.9	0.7	0.8	0.8	0.6
II. Other economic indicators			(% of current GDP)				
Gross national saving	26.4	26.6	26.8	24.4	25.0	25.9	21.0 [c]
Gross domestic saving	23.0	24.2	25.1	21.2	24.5	26.2	22.2 [c]
III. Employment[d]							
Activity rate (%, end of period)	46.1	45.6	46.0	46.3	45.8	46.1	46.2
Unemployment rate (%,end of period)	8.7	7.5	7.3	8.4	7.3	6.7	7.2
Employment rate (%, end of period)	42.1	42.1	42.6	42.4	42.4	43.0	42.8
Underemployment rate (%, end of period)	7.5	6.0	6.0	6.9	5.5	5.9	6.7
IV. Memorandum items							
Economically active population (EAP) (urban total, thousand)	16,031	15,981	16,348	16,531	16,536	16,978	..
Total population (million)[e]	38.6	39.0	39.4	39.7	40.1	40.9	..

.. Not available.

a First two quarters. Preliminary figures.
b Figures calculated using IMF exchange rate data.
c Data for the first quarter of 2012.
d As from the third quarter of 2006, quarterly data are provided for the 31 urban agglomerates.
e INDEC data.

Source: National Institute of Statistics and Censuses of the Argentine Republic (INDEC), Central Bank of the Argentine Republic (BCRA), Ministry of the Economy and Public Finance (MEFP) and International Monetary Fund (IMF).

6. Argentina enjoyed robust economic growth for most of the review period, as real GDP expanded at an average of 7.1% per year between 2006 and 2011. GDP growth was sharply lower in 2009 as a result of the international economic financial crisis, but rebounded in the following year at an annual rate of 9.2%. This recovery was driven by the strong performance of Argentina's export products and the implementation of countercyclical measures, particularly fiscal policy, as can be seen by analysing the growth of current expenditure as a percentage of GDP from 2009 onwards.

7. GDP grew by 9.2% in 2010 and by 8.9% in 2011, fuelled by domestic demand, with consumption expanding at an average annual rate of around 10% and investment growing even faster by over 20% in 2010 (Table I.2). Investment increased by roughly 17% in 2011, mainly to purchase durable equipment, reflecting a greater need to expand productive capital at a time of high rates of installed capacity utilization.[1] Construction expenditure also rose sharply, while consumption responded to the increase in earned income resulting from higher wages and employment, an increase in public transfers, and growing access to bank credit. Private investment as a share of GDP declined as a result of the financial crisis in 2009, but has since recovered to account for 22.6% of GDP in 2011.

Table I.2
Structure of GDP in expenditure terms, 2006-2012

	2006[a]	2007[a]	2008[a]	2009[a]	2010[a]	2011	2012[a] (June)
Percentage of current GDP							
Total consumption	71.4	71.5	71.1	73.5	72.2	71.6	74.6
Private consumption	59.0	58.6	57.6	58.3	57.3	56.4	58.0
Public consumption	12.4	12.9	13.4	15.2	14.9	15.1	16.6
Gross fixed domestic investment	23.4	24.2	23.3	20.9	22.0	22.6	20.6
Statistical discrepancy and changes in inventory	-0.3	0.0	1.8	0.3	2.5	3.6	2.5
Exports of goods and services	24.8	24.6	24.5	21.4	21.7	21.8	19.3
Imports of goods and services	19.2	20.3	20.7	16.0	18.4	19.5	17.0
Real annual growth (%, based on GDP at constant 1993 prices)							
Total consumption	7.4	8.8	6.6	1.5	9.1	10.7	5.9
Private consumption	7.8	9.0	6.5	0.5	9.0	10.7	5.6
Public consumption	5.2	7.6	6.9	7.2	9.4	10.9	7.8
Gross fixed domestic investment	18.2	13.6	9.1	-10.2	21.2	16.6	-7.3
Exports of goods and services	7.3	9.1	1.2	-6.4	14.6	4.3	-3.3
Imports of goods and services	15.4	20.5	14.1	-19.0	34.0	17.8	-6.7

a First two quarters. Preliminary figures.

Source: INDEC, BCRA, MEFP.

8. In the first half of 2012, GDP growth slowed to an annualized rate of 2.4%[2], although it continued to be sustained by the robust trend of domestic demand, with total consumption accounting for over 70% of GDP. Net exports made a negative contribution to GDP growth (-2.8%), partly reflecting a 3.8% deterioration in the terms of trade relative to the previous quarter.

9. Exports of goods and services grew at an average rate of 4.8% per year between 2006 and 2011. The global crisis caused a sharp slowdown in 2008 and a further decline in 2009; but in 2010 foreign sales grew by over 14% and continued to expand in 2011, led by commodities and their derivatives and supported by increased sales of manufactured products. Goods and services imports outpaced the corresponding exports, growing at an average annual rate of 12.5% between 2006 and 2011. While imports had grown by between 14% and 21% every year before the crisis, in 2009 they strongly contracted by 19%, before rebounding vigorously in 2010 and 2011 at rates of 34% and 17.8%, respectively. Nonetheless, in the second half of 2011 and in 2012, the year-on-year growth of imports slowed in all product categories. Apart from the crisis year of 2009, net exports made negative contributions to GDP growth in the period 2006-2011, including -2.7% in the latter year.

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[1] Central Bank of the Argentine Republic (BCRA) (2012a).
[2] BCRA (2012c).

10. Unemployment fell steeply between 2006 and 2011, from 8.7% of the economically active population (EAP) in December 2006 to 6.7% in December 2011. In the first half of 2012, however, with economic activity faltering, the rate rose to 7.2%. Employment rose slightly between 2006 and 2011, from 42.1% of the total population to 43%, the highest level in recent years; but then eased slightly to 42.8% in the first half of 2012. Real wages are estimated to have increased during the review period[3], and the general wage index surged by 90.9% in current terms between 2008 and 2011 according to BCRA data.[4]

11. Argentina's rapid economic growth between 2006 and 2012 resulted in a doubling of per capita GDP in dollar terms, from US$5,424 in 2006 to US$10,896 in 2011. Gross per capita national income, as measured by the World Bank in purchasing power parity terms, rose from US$11,730 in 2006 to US$17,250 in 2011.[5] This made it possible to improve social indicators, which also reflect the application of employment-promotion, wage-hike and other income policies. The proportion of the urban population living below the poverty line fell from 16% in 2007 to 6.5% in 2011[6], while the proportion of the population living on less than two US dollars a day dropped from 7% in 2006 to 2% in 2010.[7]

12. The Argentine authorities see the income policy being implemented to protect the population's real incomes as the cornerstone of the growth-with-social-inclusion model. As part of the strategy to protect real incomes, the aim has been to maintain the price of goods in the basic shopping basket, by granting consumer subsidies and implementing policies such as export duties. These are seen as intended to decouple the effects of variations in the international prices of export goods from their prices on the domestic market, thus protecting the real incomes of the Argentine people.[8] Nonetheless, this policy also hurts exports by altering the terms of trade between tradable and non-tradable goods.

(ii) Fiscal policy

13. The MEFP, through its Finance Secretariat, is responsible for formulating and implementing fiscal policy in Argentina.

14. The 2012 General National Budget[9] projects a primary surplus of 2.5% of GDP for the non-financial public sector, obtained through increased revenue collection and the selective allocation of primary expenditure, prioritizing social programmes and expenditure on education, science and technology, and infrastructure.[10] Total income is estimated at Arg$506,576.2 million, equivalent to 24.3% of GDP, while total expenditure approved under the Budget Law amounts to Arg$505,130.0 million, or 24.2% of GDP, thus generating a slight financial surplus.

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[3] BCRA (2012a).

[4] BCRA (2012c).

[5] Online information from the World Bank. Viewed at: http://databank.worldbank.org/ddp/home.do?Step=3&id=4.

[6] Information provided by INDEC.

[7] Online information from the World Bank. Viewed at: http://databank.worldbank.org/ddp/home.do?Step=3&id=4.

[8] Ministry of the Economy and Public Finance (2012a).

[9] The General National Budget encompasses the income and expenditure of central government, decentralized organizations, and social security institutions. Public sector enterprises are not included in the budget, but only the transfers that they receive to finance current and capital expenditure. Expenditure includes transfers made to provincial governments and national universities.

[10] Ministry of the Economy and Public Finance (2012a).

15. Although Argentina recorded a primary surplus throughout the review period, this shrank from 1.5% of GDP in 2011 to 0.1% of GDP in the first quarter of 2012. The national financial balance, which was in surplus between 2006 and 2008, reported a deficit of 0.6% of GDP in 2011, following deficits of 0.5% of GDP in 2010 and 1.2% of GDP in 2009 (Table I.3).

Table I.3
National Government finances (accruals basis), 2006-2012
(% current GDP)

	2006	2007	2008	2009	2010	2011	2012[a]
(1) Current income	18.1	20.3	21.4	23.1	24.7	25.3	26.4
(2) Current expenditures	14.3	17.0	18.3	21.1	21.7	22.8	23.0
(3) Economic result: saving/dissaving (1-2)	3.8	3.2	3.2	2.0	3.1	2.5	3.4
(4) Capital income	0.1	0.1	0.1	0.1	0.1	0.1	0.1
(5) Capital expenditure	2.5	2.4	2.5	3.3	3.7	3.2	3.2
(6) Total income (1+4)	18.2	20.4	21.5	23.2	24.8	25.4	26.5
(7) Total expenditure (2+5)	16.8	19.4	20.7	24.4	25.3	26.0	26.4
(8) Primary expenditure	14.9	17.2	18.5	22.0	23.6	23.8	24.0
(9) Financial result	1.4	1.0	0.8	-1.2	-0.5	-0.6	0.2
(10) Primary result	3.3	3.2	3.0	1.2	1.2	1.5	2.5
Memorandum item							
Total gross public debt (US$ billion)	136.7	144.7	146.0	147.1	164.3	178.9	..
Total gross public debt (% GDP)	63.7	55.5	44.6	48.0	44.6	40.1	..

.. Not available.

a Projected.

Note: As interagency financing transactions are undertaken between State entities, an inflow for one is an outflow for another or others. When the fiscal statistics are presented on a cash basis, they quantify the movement of funds independently of the fiscal year to which they correspond. When they are presented on accruals basis, the record-keeping criterion reflects imputation in the corresponding fiscal year irrespective of when payment occurs.

Source: MEFP.

16. The tax revenue share of total income shrank during the period under review, from 19% of GDP in 2006 to 14.3% in 2011 (cash basis, Table AI.1). This was largely offset by a doubling of the share of social security contributions, largely reflecting the nationalization of the pension system (see Chapter IV(6)(iii)(d)). Among taxes, the shares of value added tax (VAT) and income/profits tax (*impuesto a las ganancias*) increased during the period 2006-2011, from 7.2% of GDP to 8.4%, and from 5.3% to 6%, respectively. The share of export duties also rose, from 2.2% of GDP in 2006 to 2.9% in 2011 (Table AI.2). Import duties represented 0.8% of GDP in 2011, as in 2006 - equivalent to 5.7% of the value of merchandise imports in 2011, compared to an average tariff of 11.6%.

17. Tax expenses in 2012 are forecast at 2.35% of GDP, compared to an estimated 2.29% of GDP for 2011.[11] In the latter year, more than half of such expenses corresponded to VAT exemptions, 22% to exemptions from income/profits tax and the rest were mainly exemptions from social security contributions and fuels tax (Table I.4). Table AI.3 provides estimates of tax expenses for each economic promotion regime and their share of GDP.

[11] Tax expense is defined as the amount of revenue that the Treasury foregoes by granting a tax treatment other than that generally specified in tax legislation, for the purpose of benefiting certain activities, zones, taxpayers, or consumption items. In Argentina, tax expenses are defined as incentives that cause definitive losses in revenue collection. Tax expenses do not include the deferment of tax payments, accelerated depreciation for income/profits tax, or advance reimbursement of tax credits in value added tax (VAT), because the revenue loss in the years in which these benefits are enjoyed is offset by higher tax payments in later years. See Ministry of the Economy and Public Finance (2012a).

Table I.4
Tax expenses, 2006-2012
(Percentage of GDP)

Tax	2006	2007	2008	2009	2010	2011	2012
Total	**2.13**	**2.20**	**2.08**	**2.06**	**2.14**	**2.29**	**2.35**
Under tax regulations	1.61	1.66	1.67	1.69	1.60	1.72	1.78
Under economic promotion regimes	0.51	0.54	0.42	0.38	0.55	0.57	0.57
Value-added	**1.10**	**1.13**	**1.07**	**1.08**	**1.14**	**1.19**	**1.23**
Under tax regulations	0.82	0.87	0.83	0.85	0.87	0.93	0.96
Under economic promotion regimes	0.29	0.27	0.24	0.23	0.27	0.27	0.27
Profits	**0.47**	**0.50**	**0.53**	**0.58**	**0.46**	**0.50**	**0.51**
Under tax regulations	0.39	0.41	0.45	0.50	0.37	0.42	0.43
Under economic promotion regimes	0.09	0.09	0.08	0.08	0.09	0.08	0.08
Social security contributions	**0.26**	**0.23**	**0.25**	**0.21**	**0.21**	**0.24**	**0.26**
Under tax regulations	0.26	0.23	0.25	0.21	0.21	0.24	0.26
Fuels	**0.16**	**0.13**	**0.11**	**0.11**	**0.19**	**0.21**	**0.21**
Under tax regulations	0.16	0.13	0.11	0.11	0.12	0.12	0.11
Under economic promotion regimes	0.00	0.00	0.00	0.00	0.07	0.09	0.09
Foreign trade	**0.12**	**0.17**	**0.07**	**0.05**	**0.10**	**0.11**	**0.11**
Under economic promotion regimes	0.12	0.17	0.08	0.05	0.10	0.11	0.11
Personal goods	**0.02**	**0.02**	**0.02**	**0.02**	**0.02**	**0.01**	**0.01**
Under tax regulations	0.02	0.02	0.02	0.02	0.02	0.01	0.01
Internal	**0.01**	**0.01**	**0.01**	**0.01**	**0.01**	**0.01**	**0.01**
Under tax regulations	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Presumed minimum profit	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Under economic promotion regimes	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Miscellaneous taxes	**0.01**	**0.01**	**0.01**	**0.01**	**0.02**	**0.01**	**0.02**
Under economic promotion regimes	0.01	0.01	0.01	0.01	0.02	0.01	0.02

Source: Finance Secretariat, Ministry of the Economy and Public Finance (various years), *Presupuesto: Resumen*.

18. Argentina has a tax-revenue sharing system in which the National Government collects most of the taxes and then makes transfers to the provinces. Law No. 23.548 of 7 January 1988 (Federal Fiscal Revenue Sharing Law), defines how revenue is distributed between the nation and the provinces. Revenue from all national taxes is shared, except for import and export duties and national taxes and contributions earmarked for specific purposes or areas; or else it is allocated to works of national interest by agreement between the nation and the provinces. Of the total revenue collected, 42.34% is allocated to the nation, 54.66% to affiliated provinces, 2% to compensate for the relative level of the provinces of Buenos Aires (1.5701%), Chubut, Neuquén and Santa Cruz (0.1433% each), and 1% for the National Treasury Fund for Contributions to the Provinces.[12]

19. The Federal Fiscal Responsibility Law (Law No. 25.917 passed on 24 August 2004) defined a number of rules to help consolidate fiscal and financial management by the National Government and affiliated jurisdictions. For example, it stipulates that the rate of increase of primary public expenditure in the national and provincial budgets may not exceed the nominal GDP growth rate; it also sets limits on provincial debt and requires provincial and local governments to obtain MEFP authorization before taking on further debt. The Federal Fiscal Responsibility Regime entered into force on 1 January 2005, and 21 jurisdictions had adopted it by August 2012. The expenses of these jurisdictions account for about 90% of total consolidated provincial expenditure.[13]

[12] Revenue is distributed to the affiliated provinces in the following proportions: Buenos Aires 19.93%, Catamarca 2.86%, Córdoba 9.22%, Corrientes 3.86%, Chaco 5.18%, Chubut 1.38%, Entre Ríos 5.07%, Formosa 3.78%, Jujuy 2.95%, La Pampa 1.95%, La Rioja 2.15%, Mendoza 4.33%, Misiones 3.43%, Neuquén 1.54%, Rio Negro 2.62%, Salta 3.98%, San Juan 3.51%, San Luis 2.37%, Santa Cruz 1.38%, Santa Fe 9.28%, Santiago del Estero 4.29% and Tucumán 4.94%.

[13] Buenos Aires, Catamarca, Córdoba, Corrientes, Chaco, Chubut, Entre Ríos, Formosa, Jujuy, La Rioja, Mendoza, Misiones, Neuquén, Río Negro, Salta, San Juan, Santa Cruz, Santa Fe, Santiago del Estero,

20. In response to the international financial crisis, the targets of the Federal Fiscal Responsibility Regime were redefined by Law No. 26.530 of 18 November 2009, and expenses aimed at promoting economic activity, sustaining the level of employment, and responding to the health emergency and social assistance needs were exempted from the cuts in expenditure specified in Law No. 25.917 during fiscal 2009 and 2010. Decree No. 2.054/2010 extended this provision to 2011 and 2012.

21. In addition, Decree No. 206/2009 of 19 March 2009 created the Federal Solidarity Fund, to finance health, education, hospital, housing, or road infrastructure works in urban or rural areas in the provinces and municipalities, while explicitly prohibiting its use to finance current expenses. The Fund is financed with 30% of national State revenue obtained from export duties on soya, in all its varieties and derivatives.[14] The monies in question are distributed among the provinces through the Bank of the Argentine Nation, in the percentages defined in Law No 23.548 and amendments thereto. Of total revenue collected by the provinces, 70% is used to finance infrastructure works in the provinces, while the other 30% is passed on to the municipalities.

22. Having been in deficit in 2009, consolidated provincial public finances posted a net financial surplus equivalent to 0.99% of GDP and a net primary surplus of 1.26% of GDP in 2010. This result reflected revenue growth of 35.2% in relation to 2009, which outstripped the 24.6% increase in total expenses. Nonetheless, in 2010, ten provinces required a total of Arg$7,543 million in financial assistance from the National Government. In 2011, the total provincial net financial outturn was expected to be roughly in balance.[15]

23. The authorities have been implementing a debt reduction policy since 2003. The financing policy for 2012 included the objectives of obtaining the funds needed to service the debt expiring in that year, for which the forecast primary surplus is insufficient; and to continue reducing the burden of future debt service in relation to projected public sector income.

24. As part of its debt reduction policy, the National Government has adopted measures to reduce provincial debt. Decree No. 660/2010 created the Federal Debt Reduction Programme for the Argentine Provinces, with the aim of reducing the provinces' debt to the National Government by allocating available funds from the National Treasury Contributions Fund, created by Law No. 23.548 of 26 January 1988, and rescheduling the resulting provincial debt. Under the debt reduction programme, the National Treasury Contributions Fund assigned Arg$9,643.7 million, to write off 14.7% of the provinces' eligible debt stock, while rescheduling the rest under more favourable terms, pursuant to the guidelines established in Decree No. 660/2010.[16]

Tucumán, Tierra del Fuego, Antártida and the South Atlantic islands (see online information from the Ministry of the Economy and Public Finance. Viewed at: http://www2.mecon.gov.ar/cfrf/integrantes/integrantes.htm).

[14] The presentation of the motives underlying the decree states that the export duty is being used to strengthen solidarity by being directly channelled into education, health, sanitation, housing or road infrastructure (see Decree No. 206/2009 of 19 March 2009. Viewed at: http://www.infoleg.gov.ar/infolegInternet/anexos/150000-154999/151520/norma.htm).

[15] Ministry of the Economy and Public Finance (2012a).

[16] The repayment conditions established were as follows: (a) a grace period for interest payments and principal amortization until 31 December 2011; (b) principal amortized in 227 consecutive monthly instalments equivalent to 0.439%, and a final instalment equivalent to 0.347% of the principal, to be paid as from January 2012; (c) interest is capitalized on a monthly basis up to 31 December 2011, and payable monthly, with the first payment falling due in January 2012, and the applicable interest rate is 6% nominal per year; (d) the debt is collateralized by allocating the amounts receivable by the province through the federal tax revenue sharing regime. These conditions were reformulated in MEFP Resolution No. 33/2011

25. The debt reduction policy and high rates of GDP growth, supported by the primary surpluses generated during the review period, made it possible to reduce the relative size of the public debt, from over 60% of GDP in 2006 to 41.6% in 2011 (Table I.3).

(iii) Monetary and exchange rate policy

26. Argentina's monetary and exchange rate policy is managed by the Central Bank of the Argentine Republic (BCRA). During the review period, changes were made to the Central Bank Charter, defined in Law No. 26.739 of 22 March 2012, including an alteration of the bank's functions and objectives. This new framework specified the purpose of the BCRA as "Providing monetary stability, financial stability, employment and economic development with social equity, in accordance with its faculties and in the framework of policies established by the National Government" (Article 3 of Law No. 26.739).[17]

27. The amended Charter still allows the BCRA to extend temporary advances to the National Government for up to 12% of the monetary base; and to make advances of up to 10% of the cash resources obtained by the National Government over the previous 12 months. These advances have to be repaid within 12 months of being released. The Charter also allows the bank to make temporary advances for an additional amount equivalent to up to 10% of the cash resources received by the National Government in the last 12 months "on an exceptional basis and if the national or international economic situation or prospects so justify", with authority to make use of this exceptional faculty for a maximum of 18 months. These advances must be repaid within 18 months of being released (Article 20). Along with the amendment to the Central Bank Charter, changes were also made to the Convertibility Law (Law No. 23.928 of 27 March 1991), eliminating the relation between the monetary base and international reserves which the monetary authority had been required to observe. Following these changes, the level of required reserves that the BCRA must keep to implement exchange rate policy will be defined by the Board of Governors. Freely disposable reserves (surpluses) can be used to pay obligations contracted with international financial organizations or official bilateral external debt, provided that the monetary effect is neutral.

28. The BCRA's monetary policy is founded on seven broad lines of action: (i) control of monetary aggregates; (ii) deepening of productive credit; (iii) managed floating of the exchange rate; (iv) accumulation of international reserves; (v) prudential macro-regulation of financial capital flows; (vi) regulation and supervision of the financial system; and (vii) universalization of access to financial services.[18] In its 2012 monetary programme, the BCRA noted that "monetary policy has a role to play in economic development, for which reason it should contribute to maintaining equilibrium among macroeconomic variables to ensure a sustainable growth path and adequate functioning of the financial system". It also stated that "monetary stability is understood in a broad

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of 23 December 2011, which extended the grace period to 31 December 2012, and provided for amortization to be paid in 203 monthly instalments of 0.49% of the total, and a final instalment of 0.53%.

[17] The functions and faculties of the BCRA were defined in Article 4(b) of Law No. 26.739 as follows: (a) regulate the functioning of the financial system; (b) regulate the quantity of money and interest rate and regulate and channel credit; (c) act as the national State financial agent and depository and the country's agent in relation to international monetary, banking and financial institutions; (d) concentrate and manage reserves of gold, foreign currency and other external assets; (e) contribute to the good functioning of the capital market; (f) execute foreign exchange policy; (g) regulate payment systems, settlement and clearance mechanisms, fund remitters and value transportation firms, and any other activity related to financial and foreign exchange activities; and (h) oversee the protection of the rights of financial service users and the protection of competition.

[18] BCRA (2011b).

sense and forms part of the general orientation of economic policy", and that "the international context prevailing in the last four years has highlighted the need to extend coordination among the conventional objectives of monetary policy with other functions, such as financial stability, sustainable growth, and job creation".[19]

29. Since the 2006 monetary programme, the BCRA has used M2 as its target monetary variable.[20] The Central Bank defines quarterly ranges for M2 which leaves it sufficient flexibility in monetary policy to manage other variables that could influence the liquidity of the economy ("fine tuning"), such as control of the short-term interest rate through daily intervention in the repo market (*mercado de pases*), bond trading operations, and intervention in the exchange market.[21] The BCRA sterilizes all surplus monetary expansion, basically by issuing bills and notes (LEBAC and NOBAC).

30. In 2009 and 2010, the monetary programme reflected the need to respond to the international economic crisis, and a countercyclical policy was implemented that included successive interest rate cuts on repo transactions, and measures to encourage lending to the private sector and to generate a deeper interest-rate futures market.[22] In 2009, the year-on-year variation of private M2 was around the midpoint of the range estimated in the 2009 revised monetary programme (9.8%-18.9%). The buoyancy of peso-denominated fixed-term deposits fuelled growth in the broadest peso aggregate, M3; and interest rates on the local money market fell in line with the reduction in the BCRA's policy rates. The 2010 monetary programme initially set average year-on-year growth targets of 14.3% for M2 and 14.0% for private M2; but these were subsequently revised to take account of the fact that economic activity was growing faster than expected.

31. Since 2011, the BCRA has been implementing a more expansionary monetary programme, based on a forecast of strong growth in the demand for money in nominal terms. In its baseline scenario, the programme predicted average variations for M2 and private M2 of 27.9% and 29.2%, year-on-year; but the outturn was slightly above the centre of the band: in December, M2 and private M2 displayed year-on-year growth rates of 29% and 30.7%, respectively. The baseline scenario of the 2012 monetary programme foresees 26.4% year-on-year growth in December for M2 and 26.2% for private M2, below the end-2011 figures of 28.8% and 30% (see Table I.5).

[19] BCRA (2011b).

[20] The sum of currency in circulation, private and public sector current-account deposits in pesos, and private and public sector savings deposits in pesos.

[21] In the repo market (short-term bank transactions), the BCRA establishes a benchmark "corridor" for the short-term interest rate.

[22] BCRA (2009 and 2010).

Table I.5
Main monetary indicators, 2007-2012

	2007	2008	2009	2010	2011	2012 (June)
Monetary variables						
Broad monetary base (% GDP)	10.5	9.9	9.4	9.5	10.6	11.1
Broad monetary base (variation %)	25.4	10.5	11.5	31.6	34.6	33.9
Total deposits, private sector (% GDP)	16.5	15.1	15.4	15.3	15.8	16.6
Total loans, private sector (% GDP)	11.4	11.9	11.1	11.7	14.2	14.7
M2 (% GDP)	15.8	16.0	15.5	15.3	16.2	16.6
M2 (annual variation %)	18.0	18.8	13.6	28.1	28.9	31.5
M2 (private) (annual variation %)	28.5	8.0	15.8	33.1	30.7	32.1
M3 (% GDP)	26.1	24.7	23.5	24.5	26.3	27.0
M3 (annual variation %)	20.6	11.3	11.2	35.6	30.3	29.5
Interest rate (end of period)						
Call in pesos, total	10.7	10.9	8.7	10.2	9.7	9.6
Fixed term, in pesos, total (30 to 60 days)	9.6	16.4	9.7	10.2	12.8	12.8
Fixed term, in dollars, total	1.0	1.7	0.6	0.4	0.4	0.5
LEBAC (3 months)	10.7	12.5	12.8	11.0	14.0	11.5
LEBAC (6 months)	8.3	12.8	13.6	11.7	14.0	12.3
NOBAC, BADLAR private banks (1 year)	2.2	1.8	1.0	2.1	0.6	n/o
Inflation (12-month rate of change)						
Consumer price index (Greater Buenos Aires) (IPC-GBA, retail prices) (2008=100)	8.5	7.2	7.7	10.9	9.5	9.9
Wholesale price index (IPIM) (1993=100)	14.6	8.8	10.3	14.6	12.7	12.8
Exchange rates						
Multilateral real exchange rate index (Dec. 01=100)	253.6	232.3	286.6	283.1	283.8	273.8
Variation in the multilateral real exchange rate with Brazil (pesos/real)	19.0	-19.5	47.2	3.7	-3.2	-8.3
Variation of the multilateral real exchange rate with the United States (pesos/US$)	-1.3	1.9	6.3	-4.3	1.9	0.6
Variation of the multilateral real exchange rate with the euro zone (pesos/€)	7.7	-3.8	12.3	-12.4	1.0	-3.4

n/o No operations.

Source: BCRA.

32. The BCRA has implemented a managed floating regime for the exchange rate since Emergency Law No. 25.561 of 6 January 2002 amended various aspects of the Convertibility Law and abolished the fixed exchange rate regime. The exchange rate correction since floating was introduced in early 2002 has been greater than in neighbouring countries, reflecting the extent of the real exchange rate misalignment at the outset; and the BCRA has intervened in the foreign-exchange market to reinforce the prudential international reserves accumulation policy, which it has continued to implement during the review period. To prevent these interventions from putting the M2 target at risk, the BCRA uses various monetary regulation techniques to partially sterilize the monetary issuance associated with foreign-exchange purchases.[23] During the period January 2007-June 2012, the nominal exchange rate has varied in different ways depending on the trading partner in question, particularly in 2007 and 2008. In 2009, there was a nominal depreciation against Argentina's three main trading partners (the European Union, the United States and Brazil); whereas in 2010 the peso depreciated against the US dollar and the Brazilian real, while appreciating against the euro. In 2011 and the first half of 2012, the peso suffered a nominal depreciation in relation to the dollar and euro, and a slight appreciation against the real.[24]

[23] The early cancellation of rediscounts (through the "matching" programme and advance cancellations), repo operations, and the placement of Central Bank bills and notes with maturities between one month and two years, have been factors in the absorption of the monetary base.

[24] BCRA, Communiqué No. 50.067, *Evolución del Índice de Tipo de Cambio Real Multilateral. Junio de 2012*, 27 July 2012. Viewed at: http://www.bcra.gov.ar/pdfs/comytexord/P50067.pdf.

33. Argentina's foreign exchange regulations require exporters to convert all of their foreign currency earnings into pesos on the foreign exchange market. This requirement has been extended to exporters of oil, gas and mineral products since 2011 (Table AI.4). In the case of services exports, there is also a requirement to convert all amounts effectively received in foreign exchange, net of withholding or discounts made abroad by the customer, on the foreign exchange market. This encompasses all exports of services provided by residents to non-residents. Portfolio investments by non-residents, financial debts of the non-financial private sector and financial sector (except when intended for productive investments and/or granted by international organizations), and initial share issues of resident companies that are not publicly traded must constitute non-interest bearing one-year deposits in US dollars for 30% of the dollar equivalent of the total operation. In 2011, new regulations were issued governing access to the local foreign exchange market for the purpose of paying for imports. Among other things, these restricted access to the amount of the purchase as agreed upon and provided that sales of foreign exchange to pay for imports may only be made for payment by an individual cheque or debit in the customer's local accounts, cash payments not being acceptable. As from 1 July 2010, an import payments monitoring system (SEPAIMPO) has been implemented to ensure that such payments are backed by commercial transactions registered in Customs.[25] Since January 2012, all sales of foreign exchange, including for the purpose of travel and tourism, have required validation by the Federal Public Revenue Administration (AFIP) (Table AI.4).

34. Since 2008, the rate of change of the Greater Buenos Aires Consumer Price Index (IPC-GBA) has gathered pace, rising by 10.9% in 2010, 9.5% in 2011 and 9.9% in the 12 months to June 2012. In the 12 months ending October 2012, the index rose by 10.2%.[26] For 2012 as a whole, the authorities had made an initial estimate of a 9.4% increase in the IPC-GBA[27], while the IMF is forecasting increases of 9.9% in 2012 and 9.7% in 2013.[28] Inflation has been stoked by robust domestic demand and high international commodity prices. In February 2012, the IMF Executive Board approved a decision calling on Argentina to implement specific measures to improve the quality of reported IPC-GBA and GDP data.[29] The World Bank, meanwhile, has estimated inflation in Argentina in 2011 at 17.2%.[30] The wholesale price index also rose by 12.8% in the 12 months to September 2012, with the domestic component rising by 13.1% and the imported component by 8.4%.[31] Certain monetary indicators, such as the growth of M2, would also seem to suggest higher levels of price variation than those captured by the IPC-GBA. On this point, the authorities emphasized that it was necessary to bear in mind that the price variation levels in question occurred while the economy was growing rapidly, except in 2009.

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[25] The main foreign trade and exchange regulations in force in early 2012 were as follows: BCRA Communications "A" 1.722, 3.473, 4.634, 4.940, 5.060, 5.233, 5.245, 5.264, 5.265, 5.274, 5.295, 5.300, 5.330 and 5.339; BCRA Communication "C" 39.547; Decrees Nos. 753/2004 and No 1.722/2011; Resolutions Nos. 280/2009, 142/2012, 187/2012 and 231/2012, and AFIP General Resolutions Nos. 3.210/2011 and 3.252/2012.

[26] Online information from the BCRA, *Radar macroeconómico*. Viewed at: http://www.bcra.gov.ar/pdfs/indicadores/Radar.pdf.

[27] Ministry of the Economy and Public Finance (2012a).

[28] Online information from the IMF. Viewed at: http://www.imf.org/external/country/ARG/index.htm.

[29] IMF, Press Release No. 12/30, "Statement by the IMF Executive Board on Argentina", 1 February 2012. Viewed at: http://www.imf.org/external/spanish/np/sec/pr/2012/pr1230s.htm.

[30] Online information from the World Bank. Viewed at: http://www.worldbank.org/en/country/argentina.

[31] Online information from the IPGE. Viewed at: http://www.indec.gov.ar/nuevaweb/cuadros/10/ipim-anuario05.xls.

(iv) Balance of payments

35. The current account of Argentina's balance of payments was in surplus in the period 2006-2010 and ended 2011 broadly in balance (Table I.6). Nonetheless, performance deteriorated in 2010 and 2011 and in the first quarter of 2012, when the current account posted a deficit of US$552 million. The increase in the surplus in 2009 is largely explained by a steep drop in imports, in the wake of the global financial crisis, although merchandise imports almost doubled between 2009 and 2011 as the economy recovered. Nonetheless, the merchandise trade balance continues to generate a large surplus (US$13,561 million in 2011) (Table I.6). Goods exports rose sharply between 2006 and 2008, before declining abruptly by more than 30% in 2009; but they rebounded in 2010, virtually regaining their pre-crisis levels, and continued to expand rapidly (by 31%) in 2011.

Table I.6
Balance of payments, 2006-2012
(US$ million)

	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012 (March)**
I. Current account	**7,768**	**7,354**	**6,756**	**10,995**	**2,830**	**-5**	**-552**
A. Goods	**13,958**	**13,456**	**15,423**	**18,526**	**14,266**	**13,561**	**3,600**
Exports f.o.b.	46,546	55,980	70,019	55,672	68,134	84,315	18,283
Imports f.o.b.	32,588	42,525	54,596	37,146	53,868	70,754	14,683
B. Services	**-501**	**-513**	**-1,284**	**-1,285**	**-1,100**	**-2,289**	**-1,155**
Exports of services	8,023	10,363	12,156	10,967	13,086	14,252	3,968
Imports of services	8,523	10,876	13,440	12,252	14,	16,541	4,853
C. Income	**-6,150**	**-5,942**	**-7,552**	**-8,955**	**-9,939**	**-10,815**	**-2,925**
Investment income	-6,090	-5,870	-7,494	-8,887	-9,881	-10,767	-2,916
Interest	-1,151	-629	-1,400	-2,260	-2,723	-3,437	-869
Credit	3,993	5,072	4,205	2,140	1,682	1,681	399
Debit	5,143	5,701	5,605	4,400	4,404	5,118	1,268
Profits and dividends	-4,939	-5,241	-6,094	-6,627	-7,159	-7,330	-2,047
Credit	1,638	1,487	1,324	1,292	941	1,226	260
Debit	6,577	6,728	7,418	7,919	8,100	8,556	2,307
Other income	-60	-72	-58	-68	-58	- 48	-9
D. Current transfers	**459**	**353**	**170**	**2,710**	**-398**	**-46**	**- 72**
II. Capital and financial account	**-5,401**	**5,680**	**-7,809**	**-9,330**	**2,362**	**- 1,555**	**618**
A. Capital account	**97**	**121**	**181**	**74**	**89**	**68**	**8**
Non-produced non-financial assets	97	121	181	74	89	68	8
B. Financial account	**-5,498**	**5,559**	**-7,990**	**-9,404**	**2,273**	**-1,624**	**610**
Banking sector	-10,508	1,583	1,733	-986	-2,566	6,598	- 1,080
BCRA	-10,400	1,493	1,823	-1,404	-2,910	5,000	- 1,000
Other financial entities	-108	90	-90	417	344	1,598	-80
Non-financial public sector	3,437	2,404	-517	-732	2,209	-2,204	484
National Government	2,957	2,158	-298	-632	486	-3,311	93
Local governments	809	448	-102	-65	1,784	1,171	397
Firms and others	-329	-202	-117	-35	-61	-64	-6
Non-financial private sector	1,573	1,572	-9,206	-7,685	2,630	-6,018	1,207
III. Net errors and omissions	1,163	63	1,062	-319	-1,035	-4,547	**604**
IV. Variation in international reserves	**3,530**	**13,098**	**9**	**1,346**	**4,157**	**-6,108**	**670**
International reserves of the BCRA	3,960	14,139	210	1,582	4,222	-5,814	915
Adjustment by repo type	430	1,041	201	235	65	294	245
Memorandum item							
Current account (% GDP)	3.6	2.8	2.1	3.6	0.8	0.0	-0.1

Note: In the second quarter of 2010, estimations were included of flows generated by the completion of the public debt swap undertaken in June 2010 (Decree No. 563/10). The most important effects are seen in the financial account. An estimate is also included of the payment of interest capitalization and issuance of the 2017 Global Bond.

Source: INDEC, BCRA.

36. Argentina's services balance in remains in deficit; and the shortfall doubled between 2010 and 2011 to reach US$2,289 million, largely owing to increased outgoings in respect of transport, travel, business, professional and technical services, and royalties (see below). The income account was also in deficit during the review period, with the gap widening from US$6,090 million in 2006 to US$10,815 million in 2011.

37. Although the financial account recorded a surplus in 2007 and 2010, it was in deficit in the other years. This gap was largest in 2008 and 2009, when, owing to the uncertainty caused by the global financial crisis, nearly US$17 billion of private capital flowed out of the country, with a consequent increase in the net formation of foreign assets by the non-financial private sector. Although this flow was reversed in 2010 with a net inflow of private capital, in 2011 there was another large net exodus of US$6,018 million, equivalent to 1.4% of GDP. In 2010, there was also a net reduction in the foreign liabilities of the non-financial public sector, reflecting the Government's debt reduction policy and the transfer of BCRA reserves to the Treasury, through the creation of the Argentine Debt Relief Fund (see below). The net outflow of private capital together with the National Government's debt reduction policy resulted in a drain on international reserves, unlike what happened in the 2006-2010 period, when there was vigorous accumulation. The level of gross international reserves fell to US$46,376 million by the end of 2011, before starting to pick up in the first quarter of 2012, when it reached US$47,291 million.

38. Argentina's total foreign debt contracted sharply in the review period, shrinking from 66.7% of GDP in 2005 to 31.6% in 2011. The Argentine Debt Relief Fund, created by Decree No. 298 of 1 March 2010, aims to reduce the financial cost through savings on interest payments. The Fund consists of part of the transfer of freely disposable BCRA reserves to the National Treasury. In return, the BCRA receives a debt instrument issued by the National Treasury, consisting of a non-transferable ten-year bill denominated in US dollars, with full amortization on expiry. This pays an interest rate equal to that earned by the BCRA's international reserves for the same period, and up to a maximum equivalent to the one-year LIBOR rate less one percentage point. Interest is calculated every six months.

39. Decree No. 298/2010 provided for US$4,382 million of the BCRA's freely disposable reserves to be transferred to the National Treasury in 2010, in order to repay the latter's public debt held by the private sector, expiring in that year. Decree No. 2054 of 22 December 2010 provided for the Fund's continuation in fiscal 2011, with a maximum amount of US$7,504 million. MEFP Resolution 131/2012 of 24 April 2012 provided for a National Treasury Bill to be issued in 2012, amounting to US$5,674 million, corresponding to payments to the private holders of public debt expiring in that year. These payments, plus the cancellation of the debt with the IMF (US$9,530 million in 2006) and debt service payments to international organizations (US$2,134 million in 2010, US$2,079 million dollars in 2011 and US$2,083 million in 2012), make a total of US$33,382 million in international reserves used to pay the foreign liabilities of the public sector. As a result of this policy, Argentina's total public debt was reduced from 73.5% of GDP in late 2005 to 41.8% in December 2011, while the external public debt was reduced from 35.9% of GDP to 16.4% in the same period.

(3) TRADE AND INVESTMENT FLOWS

(i) Trend of merchandise trade

40. Following a period of rapid growth between 2006 and 2008, Argentine goods exports weakened in 2009 in the wake of the global crisis, before staging a recovery in 2010 and 2011.

Between 2006 and 2011, goods exports grew by an average of 12.5% per year, to reach a level of US$83,950 million in 2011 (COMTRADE database, Tables AI.5 and AI.7). Imports grew even faster, at an average annual rate of 16.7% (Tables AI.6 and AI.8). Although both exports and imports expanded, the GDP share of merchandise trade shrank between 2006 and 2011, from 38.1% to 35.5%. This partly reflects foreign-exchange factors and the robust growth of the domestic component of GDP.

41. This export growth partly reflects an improvement in Argentina's terms of trade, involving increases in the prices of some of its main export products, supported by robust international demand for food and commodity products. In contrast, the import growth reflects burgeoning domestic demand, for both consumer and capital goods.

(a) Composition of merchandise trade

42. Argentina remains a major exporter of agricultural products, which are still its leading export item, accounting for 53.9% of the total in 2011. Oilseeds, soya beans, wheat, maize and beef are the main export products (Table AI.5). Fuel exports decreased, both as a share of the total and in absolute terms, from 15.3% of total exports (about US$7,121 million) in 2006 to 5.9% (around US$4,950 million) in 2011.

43. The share of manufactured goods in total exports, excluding those of agricultural origin, remain broadly unchanged at 31.4% in 2011 (Table AI.5 and Chart I.1), while foreign sales of chemical and automotive products trended positively during the period 2006-2011.

44. The composition of Argentina's imports in 2006-2011 shows an increasing share of commodities, particularly fuels, which grew from 4.7% of total imports in 2006 to 12.2% in 2011 (Chart I.1). In value terms, fuel imports increased more than fivefold, from roughly US$1,605 million in 2006 to around US$9,020 million in 2011 (Table AI.6). In the latter year, manufactured products accounted for 79.9% of total imports, compared to 86.6% in 2006 (Chart I.1).

(b) Merchandise trade destinations

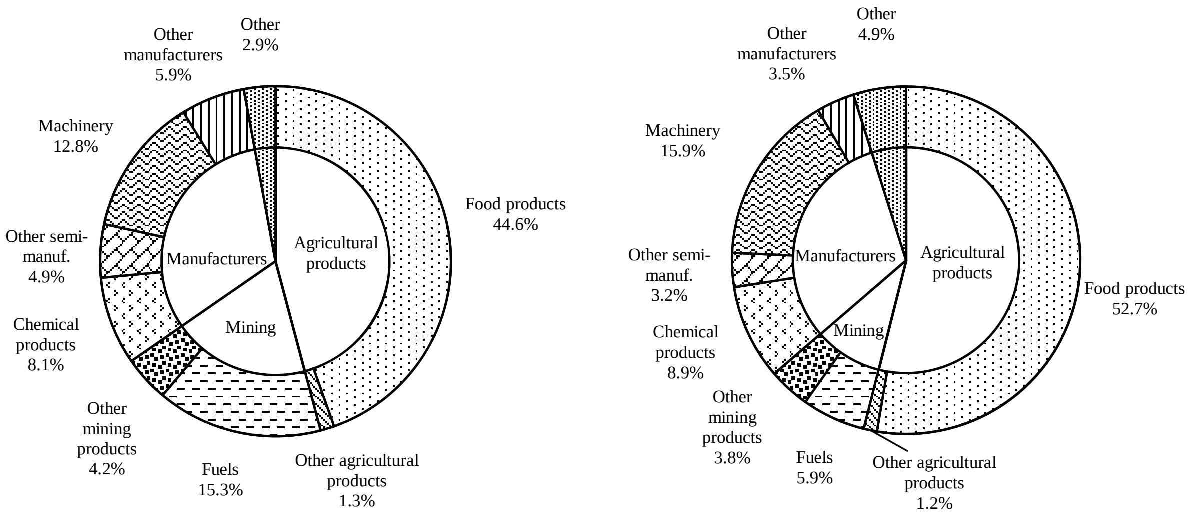
45. Despite continuously losing share during the period under review, the countries of the American continent remain the leading destination for Argentine exports, accounting for 48.6% of the total exported in 2011 (Table AI.7 and Chart I.2). The share of the American continent decreased mainly owing to a reduction in Argentine exports to the United States and Chile, while exports to Brazil increased. After Brazil and the European Union (treated as a group), the main destinations for Argentine exports were China, Chile and the United States. Asia's share continued to rise, largely as a result of increased Argentine exports to China, which has become its largest export market on the Asian continent.

46. The proportion of imports sourced from the American continent decreased from 57% of the total in 2006 to 51.1% in 2011 (Table AI.8 and Chart I.2). Imports from Brazil fell from 34.8% of the total in 2006 to 29.7% in 2011, partly as a result of the appreciation of the real against the Argentine peso for most of the period under review. The share of imports obtained from the United States and the European Union also declined, whereas those from China increased substantially from 9.1% of the total in 2006 to 14.3% in 2011.

Chart I.1
Trade in goods by product, 2006 and 2011

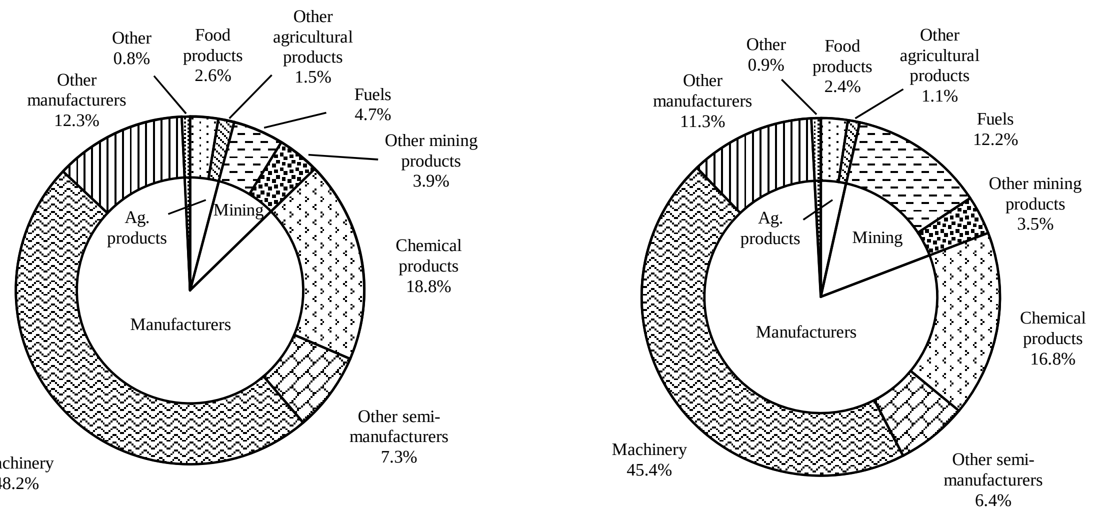
2006 **2011**

(a) Exports (f.o.b.)



Total: US$46,546 million **Total: US$83,950 million**

(b) Imports (c.i.f.)



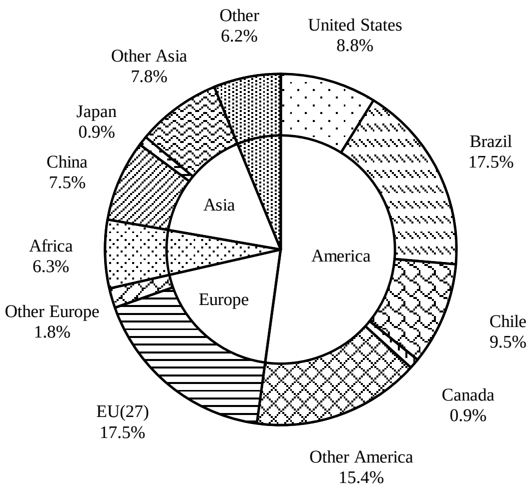
Total: US$34,154 million **Total: US$73,937 million**

Source: **COMTRADE database of the United Nations Statistics Division and Argentine authorities.**

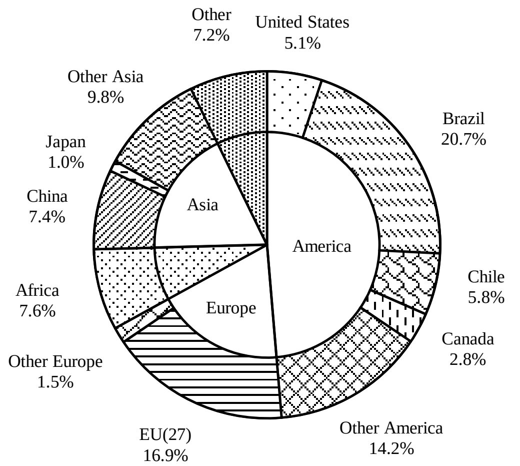
Chart I.2
Merchandise trade by trading partner, 2006 and 2011

2006 | **2011**

(a) Exports (f.o.b.)

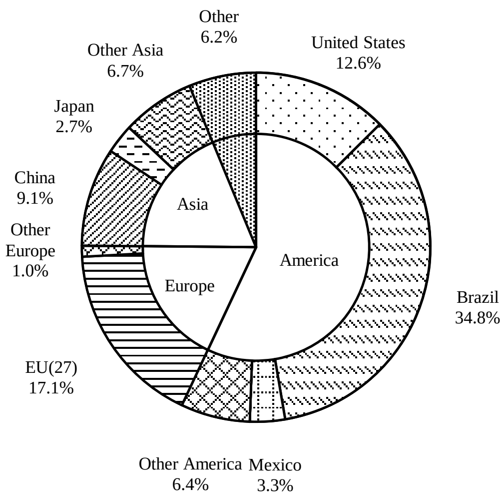


Total: US$46,546 million

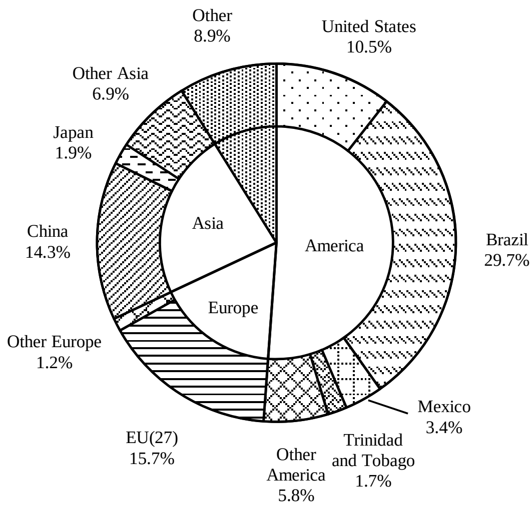


Total: US$83,950 million

(b) Imports (c.i.f.)



Total: US$34,154 million



Total: US$73,937 million

Source: **COMTRADE database of the United Nations Statistics Division and Argentine authorities.**

(ii) Trade in services

47. Argentina's trade in services recorded a widening deficit during the review period, doubling to US$2,289 million between 2010 and 2011. Although inflows grew by an average of 13% per year between 2006 and 2011, outgoings averaged 15% per year, doubling in dollar terms between 2006 and 2011 (Table I.7).

Table I.7
Trade in services, 2006-2012
(US$ million)

	2006	2007	2008	2009	2010	2011	2012[a] (March)
Balance	**-501**	**-513**	**-1,284**	**-1,285**	**-1,100**	**-2,289**	**-1,155**
Total inflows	**8,023**	**10,363**	**12,156**	**10,967**	**13,086**	**14,252**	**3,698**
Transport	1,408	1,666	1,771	1,575	2,034	2,249	561
Freight	241	293	272	284	430	484	113
Fares	555	670	650	516	687	707	188
Other	612	703	849	775	918	1,058	259
Travel	3,344	4,314	4,646	3,960	4,942	5,350	1,526
Communication services	273	314	363	281	303	319	77
Construction services	20	38	30	18	62	37	9
Insurance services[b]	0	0	12	11	15	1,820	4
Financial services	6	9	8	6	7	9	2
Computer and information services	378	655	894	1,054	1,260	1,626	385
Royalties	71	106	105	102	145	190	39
Business, professional and technical services	2,140	2,816	3,690	3,547	3,814	3,918	964
Personal, cultural and recreational services	258	314	486	280	317	333	81
Government services n.e.s.	124	130	151	136	186	201	49
Total outflows	**8,523**	**10,876**	**13,440**	**12,252**	**14,186**	**16,541**	**4,853**
Transport	2,278	2,997	3,911	2,692	3,706	4,449	1,068
Freight	1,196	1,713	2,325	1,250	2,009	2,430	458
Fares	939	1,142	1,401	1,272	1,497	1,800	551
Other	143	142	185	171	200	219	58
Travel	3,099	3,921	4,561	4,494	4,878	5,511	2,043
Communication services	309	362	438	366	367	460	121
Construction services	1	17	28	17	4	11	1
Insurance services	283	375	449	442	541	717	225
Financial services	78	87	84	94	105	89	20
Computer and information services	226	310	378	427	468	583	167
Royalties	806	1,042	1,463	1,461	1,552	1,739	386
Business, professional and technical services	990	1,250	1,512	1,605	1,837	2,169	633
Personal, cultural and recreational services	172	208	249	288	373	462	119
Government services n.e.s.	281	307	367	365	356	352	79

a Preliminary figures.
b Zero represents an amount below US$500,000.

Source: INEC.

48. Argentina has a deficit in almost all branches of its trade in services, with the exception of construction and computer and information services, which have been surplus throughout the period, and travel, where surpluses and deficits alternate. Travel and transport are the most important items on both sides of the equation, representing about 60% of outflows and more than 50% of inflows.

(iii) Foreign investment

49. Argentina continues to be a net recipient of foreign direct investment (FDI). Between 2006 and 2010, its stock of FDI grew by about US$19 billion, with inflows of around US$40 billion in the same period. The FDI stock totalled US$88,249 million in 2010, the last year for which there was complete information as of late 2012. The leading investors in Argentina are (in order of importance): Spain, the United States, the Netherlands, Chile, Brazil, Germany and Switzerland (Table I.8).

Table I.8
Foreign investment by investor, 2006-2010
(US$ million)

	2006	2007	2008	2009	2010
Total	**69,292**	**77,899**	**80,942**	**80,144**	**88,249**
Europe	40,408	45,159	45,070	44,963	47,605
Spain	21,107	23,089	23,074	22,597	23,242
Netherlands	8,921	9,916	10,230	10,375	11,055
Germany	1,706	2,148	2,423	2,586	2,940
Switzerland	1,408	1,944	2,100	2,293	2,900
France	2,300	2,707	2,483	2,428	2,560
United Kingdom	1,496	1,456	1,594	1,502	1,494
Other	3,469	3,899	3,166	3,184	3,413
North America	14,364	16,652	17,505	17,852	18,740
United States	12,208	13,601	13,930	14,012	14,814
Other	2,156	3,051	3,575	3,840	3,925
Central America and Caribbean	5,647	5,358	5,242	4,046	5,401
South America	7,848	9,469	11,752	11,664	14,252
Chile	3,073	3,625	4,178	4,363	5,509
Brazil	2,810	3,659	4,969	4,319	5,367
Other	1,965	2,186	2,605	2,982	3,376
Other regions	1,025	1,261	1,372	1,619	2,252

Source: Data provided by the Argentine authorities.

50. During the period under review, the manufacturing sector absorbed the largest proportion of net FDI flows, led by the food products subsector, and the automotive and chemical industries. There were also major FDI flows in the mining and construction sectors, and in some service activities, such as transport, telecommunications and financial services. FDI flows to Argentina retreated in 2009 in the wake of the global financial crisis, but recovered afterwards. Of the total FDI stock in Argentina, the oil industry accounted for 20.6% in 2010, while manufacturing industry represented one third, of which almost 30% is investment in the chemical industry (Table I.9).

Table I.9
Foreign investment by activity, 2006-2010
(US$ million)

	2006	2007	2008	2009	2010
Petroleum	18,482	20,596	18,885	17,706	18,220
Mining	2,759	3,001	3,420	3,520	4,940
Manufacturing industry	21,634	24,608	27,658	26,068	29,537
Food, beverages and tobacco	3,467	3,761	4,252	4,393	4,847
Textiles and tanned leather	574	670	812	779	831
Paper	1,029	1,114	1,088	977	1,059
Chemicals, rubber and plastics	6,584	7,363	7,714	7,804	8,476
Metals and metal articles	3,692	4,038	4,803	4,537	4,847
Machinery and equipment	1,439	1,825	2,047	1,915	2,760
Automotive industry	4,059	4,909	6,046	4,769	5,692
Other	789	929	896	895	1,025

	2006	2007	2008	2009	2010
Electricity, gas and water	5,016	4,997	4,067	3,802	3,669
Commerce	2,710	3,169	3,543	3,588	4,074
Transport and communications	5,721	6,338	6,802	6,447	7,071
Construction	846	980	1,180	1,365	1,534
Private financial sector	2,759	3,087	3,391	3,970	4,206
Other	9,364	11,122	11,995	13,678	14,997
Total	**69,292**	**77,899**	**80,942**	**80,144**	**88,249**
Financial sector	2,723	3,087	3,390	3,968	4,204
Non-financial sector	66,569	74,812	77,551	76,175	84,044
Debt vis-à-vis related enterprises	16,312	17,789	21,480	20,289	22,611
Capital	50,256	57,023	56,071	55,886	61,433
Foreign investment flows	7,394	7,883	10,860	3,475	10,391

Source: BCRA.

(4) OUTLOOK

51. In the context of the 2012 budget, the MEFP forecast real GDP growth at 5.1% in 2012 and 4.6% in 2013, driven by vigorous domestic demand, particularly investment. It is also expecting a CPI rise of around 9% for both years.[32]

52. According to the Market Expectations Survey (REM) conducted by the BCRA, real GDP is expected to grow by about 3% in 2012 and 4% in 2013 (Table I.10).[33] A steady depreciation of the nominal exchange rate and a gradual reduction in the trade surplus are also expected, as goods imports outpace exports. The REM sees the CPI rising by between 10.4% (median forecast) and 13.7% (mean estimate) in 2012, and yet higher in 2013.[34] There are also expectations of a slight increase in the balance-of-payments current account surplus in 2013, as well as in the primary surplus of the non-financial public sector.

[32] MEFP (2012a).
[33] Through the REM, the BCRA compiles the main short- and medium-term macroeconomic forecasts regularly made by local and international economists and analysts. Participation in the REM is voluntary and open to all institutions that provide estimates on a regular basis and have recognized experience in monitoring local economic conditions. The methodology used to prepare the REM has been explained by the BCRA (2007).
[34] Online information from the BCRA, *Relevamiento de Expectativas de Mercado (REM), agosto de 2012*. Viewed at: http://www.bcra.gov.ar/estadis/es070100.asp.

Table I.10
Projections of the main macroeconomic variables, 2012 and 2013

Variables	2012			2013		
	REM mean	REM median	MEFP	REM mean	REM median	MEFP
GDP at constant prices, year-on-year variation (%)	2.6	3.1	5.1	3.9	4.0	4.6
Total consumption at constant prices, year-on-year variation (%)	3.6	3.7	4.7	4.4	4.4	4.1
Gross fixed domestic investment at constant prices; year-on-year variation (%)	1.7	1.7	7.9	5.8	5.1	6.2
Unemployment rate (%)	7.3	7.3		7.1	7.0	
CPI, annual rate of change (December-December) (%)	13.5	10.2	9.4	14.8	11.8	8.6
General wage index: monthly variation (%)	24.63	24.00	..	21.85	20.00	..
Interest rate, 30-day fixed term in Arg$ (%)	13.35	13.50	..	14.41	15.00	..
Interest rate, LEBAC 1-year in Arg$ (%)	14.68	14.50	..	15.71	16.00	..
Interest rate, reverse repos in Arg$, 7-day maturity (%)	10.12	9.50	..	10.08	10.00	..
Interest rate, BADLAR average monthly rate of private banks, 30-day maturity in Arg$ (%)	14.87	15.00	..	15.76	15.70	..
Nominal exchange rate (Arg$/US$)	4,8598	4,8678	4.40	5,6338	5,6490	4.69
Exports in US$ million	85,299	84,452	90,833	89,865	90,000	97,914
Imports in US$ million	74,835	72,770	82,254	79,718	79,348	91,049
Balance of payments current account (US$ million)	791	1,000	..	1,531	1,574	..
International reserves: end of period (US$ million)	46,043	46,300	..	47,939	47,000	..
Primary balance of the national non-financial public sector (% GDP)	-0.2	1.4	2.5	0.0	2.8	2.7

.. Not available.
Source: Online information from the BCRA, *REM: septiembre de 2012*. Viewed at: http://www.bcra.gov.ar/estadis/es070100.asp, and Ministry of the Economy and Public Finance (2012), *2012: Presupuesto. Resumen.* Viewed at: http://www.mecon.gov.ar/onp/html/presupresumen/resum12.pdf.

53. The IMF, for its part, is forecasting GDP growth of 4.2% in 2012 and 4% in 2013, and foresees consumer prices rising by 9.9% in both years.[35]

[35] Online information from the IMF. Viewed at: http://www.imf.org/external/country/ARG/index.htm.