

# ARGENTINA

Table 1	2021
Population, million	45.8
GDP, current US\$ billion	480.6
GDP per capita, current US\$	10496.1
International poverty rate (\$1.9) <sup>a</sup>	1.6
Lower middle-income poverty rate (\$3.2) <sup>a</sup>	5.8
Upper middle-income poverty rate (\$5.5) <sup>a</sup>	18.2
Gini index <sup>a</sup>	42.3
School enrollment, primary (% gross) <sup>b</sup>	109.5
Life expectancy at birth, years <sup>b</sup>	76.7
Total GHG Emissions (mtCO2e)	435.0

Source: WDI, Macro Poverty Outlook, and official data.  
a/ Most recent value (2020), 2011 PPPs.  
b/ Most recent WDI value (2019).

*Bolstered by favorable external conditions, Argentina's economy recovered from the COVID-19 crisis at a fast pace, reaching pre-pandemic activity levels by end-2021. Growth is poised to continue, driven by private consumption and investment. High inflation, tight FX controls will inhibit strong growth in the medium term. Implementing a sound macro-stabilization plan to restore fiscal sustainability, reduce inflation and support FX reserves accumulation will set the basis for broad-based growth, robust job creation and poverty alleviation.*

## Key conditions and challenges

Argentina's economy has recovered faster than previously expected. Following a 3-year recession and almost a decade of stagnation, GDP was already above pre-covid levels by end-2021, although still 4 percent below its previous cyclical peak attained in the last quarter of 2017. Higher commodity prices and trading partners' growth, notably Brazil, combined with public investment and acquisition of good and services, are behind the robust recovery in growth.

Macroeconomic imbalances have widened. The fiscal deficit remains sizeable and has been completely monetized by the Central Bank, in the absence of access to international markets and a shallow domestic market. This has pushed up inflation, which combined with tight currency controls, has added pressure to the gap between the official and parallel exchange rates and dragged down reserves. The Central Bank net reserve assets are at historically low levels (less than a third of monthly merchandise imports), while inflation is running at more than 50 percent annual rate (with core inflation even higher), eroding purchasing power and hurting those with low incomes disproportionately. High inflation acts as a counteracting force to improvements in the labor market, limiting poverty reduction.

The IMF program provides Argentina a time-window of 3 to 4 years to achieve

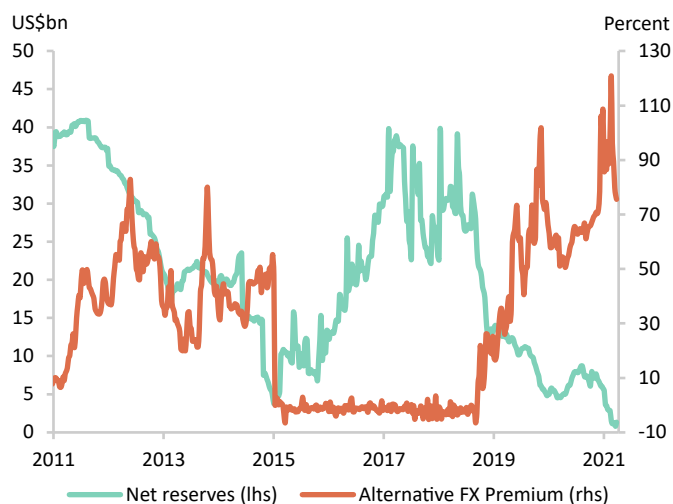
macro-stabilization, by restoring fiscal sustainability, halting deficit monetization, reducing inflation, rebuilding the Central Bank foreign reserves, and helping regain access to capital markets. Beyond the urgent need to stabilize the economy, Argentina would benefit from a shift to a medium-to-long term perspective in order to reverse the downward tendency of its potential output and adopt reforms that could deliver more sustainable and equitable growth. Reforms to boost export performance, raise skills and compensate for lack of progress in education outcomes owing to COVID, as well as improving labor market matching should be prioritized along with macro-stabilization to ensure strong and sustained growth beyond a cyclical recovery.

## Recent developments

Economic activity gained pace rapidly and reached pre-pandemic levels by Q3-2021. Investment and exports have been the main drivers of the recovery. Investment was propelled by agricultural machinery and equipment, as well as residential construction, a means to store value given high inflation and low levels of activity during 2020. Industrial exports benefited from strong growth in Brazil and high commodity prices also supported a small current account surplus.

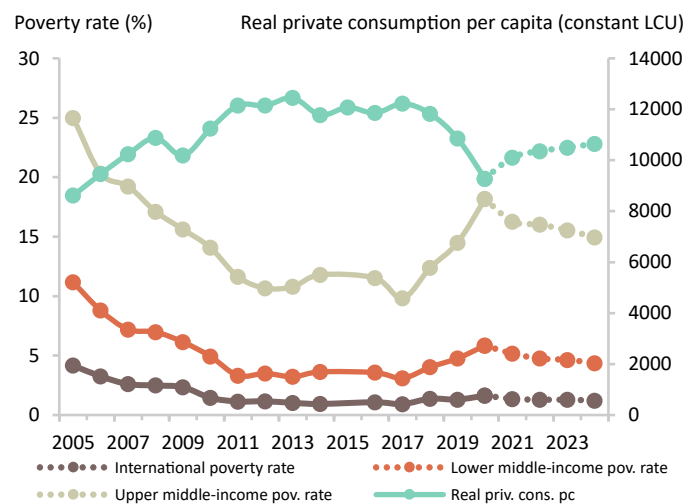
Labor markets indicators remain weak. Although the employment rate reached its pre-pandemic level in 2021, job creation has mainly occurred among informal

**FIGURE 1 Argentina / Net international reserves and exchange rate premium**



Source: World Bank staff calculations based on Central Bank data.

**FIGURE 2 Argentina / Actual and projected poverty rates and real private consumption per capita**



Source: World Bank. Notes: see Table 2.

salaried, self-employed job segments and public sector employees. Underemployment remains high, at 12.2 percent in 2021Q3, contrasting with 10.8 percent in the previous cyclical peak.

The economic recovery had a differentiated regional impact on household incomes and poverty incidence under the national poverty line. In Greater Buenos Aires, the nation's most populous region, and in Patagonia, poverty declined in the first semester of 2021, although it increased in all other regions. The northeast and northwest regions continue to register the highest levels of poverty.

The withdrawal of the emergency support spending has been the largest contributor to the reduction of the fiscal deficit in 2021, supported in part by extraordinary revenues from a one-time wealth tax and the windfall revenue from the increase in commodities prices. As the economy recovered, the government was able to remove most of this spending, but despite price controls, tariff freezes, and a real appreciation of the Peso, its entire monetization fueled inflation. The debt-to-GDP ratio declined in 2021 as a consequence of a large real appreciation.

Despite the boom in commodity prices and SDR allocation, Central Bank net reserves are on a declining trend, as a result of higher debt repayments (to IMF and other IFIs) and interventions on FX markets, reaching

extremely low levels by early-2022, on the eve of an agreement with the IMF.

## Outlook

GDP is projected to grow by 3.6 percent in 2022, given the strong 2021-Q4 carry over effect. The implementation of the Extended Fund Facility, agreed with the IMF, is expected to contribute to a more stable environment for growth by avoiding a default, setting a path for fiscal consolidation and eliminating deficit monetization. However, beyond the carry over effect, growth is expected to be modest in 2022, as a more contractionary fiscal and monetary policy takes hold and growth in trade partners slows. In 2022, the poverty rate is projected at 16.3 percent of the population under the international poverty line of \$5.5 per day. The possibilities for faster poverty reduction in the medium term will depend on the dynamism of job creation, especially private formal jobs, and the evolution of inflation.

Growth is expected to moderate over the forecast horizon. Substantial increases in the investment rate over several years are needed to boost productivity and real incomes and promote the transition towards a low carbon economy. In the short- and

medium-term, strong investment will remain inhibited by a still high inflationary environment, controls to imports, prices and capital movements, as well as limited fiscal space.

The recent surge in commodity prices can dampen growth and deteriorate the trade and fiscal balances, hindering also foreign reserve accumulation. The increase in the value of agricultural exports can be completely offset by higher oil and gas imports, or even exceed it, as Argentina remains a net importer of energy. The hike in energy prices can put pressure on fiscal accounts via higher energy subsidies and maintaining the EFF fiscal targets may lead to a reallocation of spending.

Downside risks remain high. A prolonged war in Ukraine could lead to a deterioration in the terms of trade for a net energy importer such as Argentina, and lower exports as trade partners are also hit, hampering progress in fiscal consolidation. As with most nations, an intensification of the Covid-19 pandemic cannot be ruled out, and more adverse climatic conditions, particularly extended drought impacting agriculture productivity and hydrology in both the Upper Parana River basin and via the glacial melt that feeds hydroelectric output is expected to limit the substitution of imports of energy and will continue to tilt the risks of sustainable economic growth to the downside.

**TABLE 2 Argentina / Macro poverty outlook indicators**

(annual percent change unless indicated otherwise)

	2019	2020	2021e	2022f	2023f	2024f
<b>Real GDP growth, at constant market prices</b>	-2.0	-9.9	10.3	3.6	2.5	2.5
Private Consumption	-7.3	-13.8	10.2	3.4	2.6	2.5
Government Consumption	-1.2	-3.3	7.0	2.4	1.4	1.1
Gross Fixed Capital Investment	-16.1	-12.7	32.5	5.9	4.7	5.0
Exports, Goods and Services	9.1	-17.3	9.0	5.2	5.0	4.9
Imports, Goods and Services	-19.0	-17.9	21.5	5.3	4.9	4.8
<b>Real GDP growth, at constant factor prices</b>	-1.7	-9.9	10.3	3.6	2.5	2.5
Agriculture	21.3	-7.1	0.0	1.9	2.2	2.1
Industry	-4.8	-9.4	14.5	3.0	2.5	2.3
Services	-3.1	-10.6	10.1	4.1	2.6	2.7
<b>Current Account Balance (% of GDP)</b>	-0.8	0.8	1.2	0.7	0.6	-0.1
<b>Net Foreign Direct Investment (% of GDP)</b>	1.1	0.7	0.9	1.0	1.1	1.2
<b>Fiscal Balance (% of GDP)<sup>a</sup></b>	-4.7	-8.1	-4.9	-4.6	-4.0	-3.2
<b>Debt (% of GDP)<sup>a</sup></b>	98.5	106.4	89.1	84.6	82.8	80.1
<b>Primary Balance (% of GDP)<sup>a</sup></b>	-0.5	-5.6	-3.0	-2.5	-1.8	-0.9
<b>International poverty rate (\$1.9 in 2011 PPP)<sup>b,c</sup></b>	1.3	1.6	1.3	1.3	1.3	1.2
<b>Lower middle-income poverty rate (\$3.2 in 2011 PPP)<sup>b,c</sup></b>	4.8	5.8	5.2	4.8	4.6	4.4
<b>Upper middle-income poverty rate (\$5.5 in 2011 PPP)<sup>b,c</sup></b>	14.5	18.2	16.3	16.0	15.5	15.0
<b>GHG emissions growth (mtCO2e)</b>	6.3	-3.4	7.1	2.8	2.4	2.5
<b>Energy related GHG emissions (% of total)</b>	41.3	40.8	42.2	42.4	42.5	42.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

a/ Fiscal data refer to the general government.

b/ Calculations based on SEDLAC harmonization, using 2020-EPHC-S2. Actual data: 2020. Nowcast: 2021. Forecasts are from 2022 to 2024.

c/ Projection using neutral distribution (2020) with pass-through = 0.7 based on private consumption per capita in constant LCU.