The Argentine Economy during the First Quarter of 2002 and Recent Evolution*

The prolonged recession initiated in the second half of 1998 was noticeably deepened from mid 2001 onwards with seasonally adjusted GDP falls that averaged 5% in the last quarters of the year. The argentine economy sunk again in the first quarter of 2002 continuing the line of the mentioned recession trend. This was the first quarter after abandoning the peso convertibility scheme that was prevailing during most of the 90s decade and until 2001.

Leaving the convertibility regime was already considered a very difficult experiment in the half way of the past decade; moreover, in the middle of a confidence crisis like the one that went deepening during 2001 and that turned exponential towards the end of that year, in the middle of the limitations to cash withdrawals from the bank accounts instrumented to avoid a systemic crisis that could generate tremendous damage to the savers and to the economic activity in general.

In that context, the freeing of exchange controls was not an easy task, since it changed many of the contractual economic relations derived from the previous scheme. The financial crisis, provoked by the unanimous decision of most savers to withdraw their savings from the financial system, gave rise to several and prolonged bank holidays, generating difficulties in the payment chain and in the normal development of real activity. It was not strange then, that in a context of this nature the provisional estimation of the GDP in the first quarter of 2002 had showed a negative variation of 16.3% y/y, being the strongest quarterly fall of the historical series. In this way, from the beginning of 1998 until the start of 2002, the GDP has accumulated a fall of 20%, and the investment retracted 60%, which represents average annual falls of 5.5% and 20.8%, respectively. As a consequence of such fall, the real GDP of the first quarter of 2002 reached a similar level to that of the first quarter of 1993.

When comparing with the forth quarter of 2002, the figures of GDP adjusted by seasonal variation reveal a fall of 6% in the first quarter of the current year, adding to two previous very strong falls (-5% in average). Nevertheless, certain preliminary indicators corresponding to the second quarter allow to think that the economy could be finding a floor after the collapse occurred. For this second period a much more mitigated fall in seasonally adjusted terms could be expected, that is estimated even lower to 1% q/q.

The great depreciation of the real exchange rate should stimulate a change in the relative production of the international tradable and non-tradable sectors. Initially an improvement of the productive sectors of tradable goods could be expected, while the recovery of the production of the non-tradable sectors might be delayed to a later stage of more consolidated economic recovery. In fact, what can already be slightly observed in the composition of the GDP of the first quarter of the year is a relative worsening in the tradable sectors (agriculture, mining, fishing and industry) in respect with non-tradable sec-

** This document is a summary in english language of the main subjects published in the "Informe Económico N° 41". The complete spanish version is available at "http://www.mecon.gov.ar/informe/informe41/indice.htm".*

tors (construction and services). In the monthly series, like the "Estimador Mensual Industrial" (EMI) (Monthly Industrial Estimator) two consecutive months (April and May) with positive variations y/y can be observed when they are seasonally adjusted. At the same time, a small relative improvement of the more labor-intensive sectors starts to be observed within the tradable productive sectors. From the analysis of the EMI blocks, the more labor-intensive sectors (like the metallurgical and textile industries) are the ones that show symptoms of larger recovery in seasonally adjusted terms. These are the sectors that had suffered the most during the Convertibility and that, consequently, still present the lowest levels of production.

Although the non-tradable sectors are initially the more harmed with the real depreciation of the currency, signs are appearing that would indicate that these sectors too are reaching the floor. In this respect, the cement sales to the internal market (good indicator of the evolution of the construction, traditional non tradable sector) reproduce, although with more oscillations, a similar evolution to the one the EMI has being showing[1] . They are still weak signals but, if confirmed, would allow encouraging the possibility that the floor of this recessive phase of the economic cycle has been reached.

On the other hand, as well as the activity level, the social indicators also showed an important deterioration in the beginning of the year. At the closing of this economic report, the INDEC (National Institute of Statistical and Census) was a few days from reporting the employment figures of the Permanent Household Survey of May 2002, but it is discounted that the unemployment rate will be very superior to the one already very high 18.3% that presented last October.

Simultaneously, according to an INDEC estimation, starting from the information of the Permanent Household Survey of October 2000, and updating the basic needs basket to March 2002 prices (excluding any hypothesis of income variation that might have elapsed between both periods) the percentage of homes of Gran Buenos Aires that was under the line of poverty would have raised to 29.2%, and among them, 9.6% would be in indigenous state. The number of persons under these levels was estimated in 39.7% and 14.3%, respectively.

The trigger of such deterioration in these indicators (that adds to that already being experimented during the last years) was the fact that the depreciation of the peso was stronger than expected, and in spite of the fact that its transfer to prices (pass-through) was in a very small proportion, the magnitude of the latter determined a sensible deterioration of the real income of workers.

These effects continued taking place in the next quarter. Near May, the nominal accumulated increase of the exchange rate (227.5% in the first five months) has practically tripled the increase of wholesale prices (81%). At the same time, the wholesale prices have approximately tripled the increase of the retailers (26%).

Beyond certain real factors, the reasons for a strong depreciation of the peso should be searched in the inevitably unsettled situation of the financial system. In fact, the monetary aggregates have registered an important growth due to the savers sought to get rid (within the existing limitations) of their assets in national currency in the institutionalized system and get assets in foreign currency out of such system[2] .

1 The evolution of the seasonally adjusted series of the collection of the Added Value Tax (IVA) (deflated by CPI) is another indicator that shows the same pattern in the decrease rates that the previous indicators, even though the trend in 2002 is still with negative rates (although to a much minor level that the one it was carrying), unlike the stability the previous show. The mayor level of evasion would explain this difference of behavior.

2 Savers' attitude was a reaction to the abandonment of the convertibility and the breaking of preexisting contracts (in particular, the compulsory "pesification" at an exchange rate of $1.40).

The flight of savings towards the US dollar was particularly eased by judicial sentences that made possible for the savers to withdraw their deposits, which the banks had to comply in pesos but at the free exchange rate.

During that quarter the monetary circulation grew more than $3 billon (27.9%) while the on call deposits[3] (that had rose until the end of February due to the "pesification" at $1.40 and because of dispositions that allowed to transfer part of the unavailable fixed rates certificates to these accounts) begun to register in March (past that effect) a fall of nearly $1.7 billion (-5.1%).

Also, the deposits with due dates reprogrammed by the Government fell in March, not only for the norms that made possible to transfer part of those to on call deposits and the acceleration of judicial sentences in favor of the savers, but also due to the transitory disposition that gave the savers the possibility to buy cars and houses with those funds. In this way, the total deposits of the system showed in March a fall of near $4.2 billion.

The new situation generated after the abandonment of the Convertibility policy together with the non-completion of the external obligations also had a significant effect over the fiscal accounts and the balance of payments. In the first case, although a decrease of the global deficit of the Non Financial Public Sector occurred in the first quarter of 2002 cash base y/y; this could be explained mostly by the arrears of the interest payments. Nevertheless, the decrease of this last concept, near to 2 billion pesos, was very inferior to the reduction in the current incomes, which was close to 3 billion pesos.

The impact of the new scenario over the balance of payments was seen especially in the merchandise account and in the formation of assets abroad. In fact, the commercial surplus of the first quarter was of U$S 3.75 billion (against U$S 478 million one year ago), with a slight fall of exports (-3.2% year-on-year) but virtual collapse of imports (-64%). At the same time, the reserves fell U$S 2.133 billion along the first quarter of 2002, and together with the biggest commercial surplus and to the accumulation of arrears in the financial payments of the public sector, determined in compensation a strong formation of external sector assets of the private sector (for almost U$S 2.6 billion) andthe cancellation of private debts.

During the first quarter, the Government, which took office replacing the Administration that resigned in December 2001, adopted several measures. The most important ones were discussed in detail in the previous "Economic Report" Nro. 40 (in Spanish).

After that first quarter, the difficult economic situation requested new measures. First, the President received a greater political support from the Governors of most of the provinces, who signed an agreement of 14 items, which set the guidelines of the economic policy. Basically, that agreement ratified two main aspects of the economic policy: 1) To reaffirm the decision to respect the international agreements, and the vocation to integrate the Nation to the world, and 2) To ratify measures of the economic policy which will facilitate the agreement with the IMF. Among these, it's important to point out the abolition of the Economic Subversion Law, the modification of the Bankruptcy Law, and the signature of bilateral agreements between the Federal Government and the provinces aimed at fulfilling the fiscal pact signed at the end of February.

The modification of both the Bankruptcy and Economic Subversion Law, and the signature of agreements with most of the provinces happened very quickly, and they paved the

3 *These deposits were of free availability through banking means (checks and credit and debit cards) but of limited availability in cash.*

way to start the negotiations with the IMF in order to reach a new agreement of financial assistance.

One of the most pressing problems that the new Administration had to deal with was the reorganization of the financial system, which was affected by the fact that the banks did not have enough liquidity to face the constant loss of deposits, a situation that was made worse by the proliferation of judicial appeals. As it was mentioned before, this led the Central Bank to issue money to grant rediscounts to the banks, which had a direct impact on the exchange rate and the prices, affecting mainly the lower income population.

This greater need of financial assistance from the Central Bank to the banks reached levels which were incompatible with the monetary program and with the budget of the present fiscal year, which led the Government to improve the conditions of the exchange of bonds with which people could cancel their deposits, so as to protect their rights over their savings, and at the same time preserve the performance of the financial system in general.

Therefore, instead of a mandatory exchange of bonds, which would have meant a step backwards in terms of the juridical security of the depositors, and also a greater obstacle to the recovery of the confidence in the financial system, the Decree Nro. 905/2002 set the conditions for an optional exchange for Government issued bonds. But the mentioned Decree also set the basis to regulate the creation and operation of new checking accounts, savings accounts and other accounts, destined to receive new fund inflows in the financial system coming from deposits in cash or checks, or electronic transfers from this kind of accounts. The above mentioned accounts will be independent from the accounts that were in existence before the date the Decree started to be in force.

The Government issued bonds offered in exchange are three: The BODEN 2005 in US dollars, the BODEN 2007 in pesos and the BODEN 2012 in US dollars.

At the same time, the Central Bank defined a monetary program for the remainder of the year which foresees, for the period June-December 2002, a loss of deposits of $ 14,600 millions ($ 11,100 from checking and savings accounts, and $ 3,500 millions from judicial appeals) mainly during the first four months. On the other hand, the estimated help to the banks amounts to $ 6,800 millions. If we add onto that the foreseen monetary issue to finance the National Treasury (around $ 300 millions), and a drop of $ 700 millions in the monetary base, the level of absorption would be around $ 7,800 millions and it will be met with the issuing of Central Bank Notes (LEBAC) for $ 2,900 millions, and an intervention in the exchange rate market for the remaining amount ($ 4,900 millions). In the end, we reach the goal of a net monetary issue of 4,200 millions for the period, as a result of subtracting the LEBACs from a gross emission of $ 7,100 millions ($ 6,800 millions of help to banks plus $ 300 millions of help to the Treasury).

The projections of this program (basically, the stock of reserves at the end of the year), should be considered in relation to the needs of future sterilizations, taking into account that, if the depositors showed little support to the bonds discussed in the previous paragraph, the monetary program of next year could face an important stock of deposits reprogrammed to be sterilized.

Next, as it's customary in this Chapter, a summary of the specific chapters of the Economic Report is offered[4] .

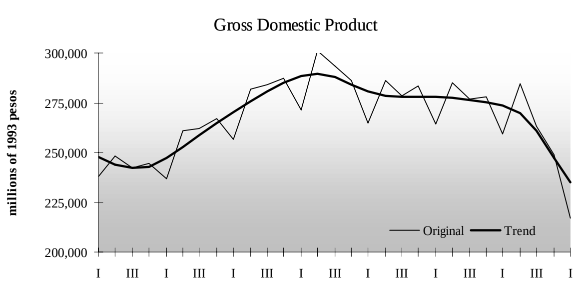
4 *Chapters can be obtained at http://www.mecon.gov.ar/informe/informe41/indice.htm, only in Spanish.*

Economic activity

The macroeconomic development in the first quarter of 2002 determined, according to provisional estimations, a negative variation in the global supply of 21.2%, measured in prices of the year 1993, compared to the same period of the previous year. This decrease was the result of a negative variation of 16.3% of the Gross Domestic Product, and a decrease of 58.0% in the imports of goods and services.

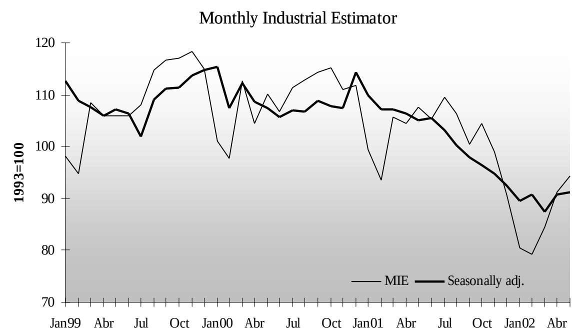
Regarding the global demand, there was a negative variation of 46.1% in the gross domestic investment, and an increase of 5.4% in the exports of goods and services. The decrease of private consumption was 20.9%, while public consumption showed a decrease of 7.5%. In particular, the good-producing sectors experienced a negative variation of 20.1% during the last quarter of 2001, determined basically by the decrease of the level of activity in the manufacturing industry (-22.8%) and construction (-41.5%). The service-producing sectors registered a decrease of 13.5% y/y.

The provisional variation of the seasonally adjusted GDP of the first quarter of 2002 compared to the last quarter of 2001 shows a decrease of 6.0%.



The Monthly Industrial Estimator (EMI) showed drops in the months of April (-12.6%) and May (-12.3%), compared to the same period of the previous year, after having decreased without interruption since August 2000, and following a negative tendency since 1999.

However, the variation in May compared with the previous month in seasonally adjusted terms, shows a slight recovery (0.6%).

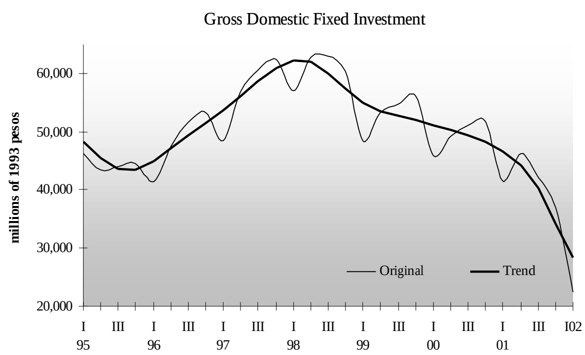


In the last month surveyed, generalized drops in different kinds of products are noted, with the exception of tobacco, which grew by 6.5%. The most noticeable drops happened in motor vehicles (-46.5%), textiles (-39.6%), non-metal minerals (-25.6%), rubber and plastics (-19%), metalmechanic industry (-15.7%), and food products and beverages (-8.9%).

The Utilities Indicator also showed drops in consumption in April (-9.5%) and May (-9.4%). The variation compared to the previous month was slightly positive, if we consider the seasonally adjusted series (0.7%). During this month, a drop in the use of almost all services was noticeable. Only the cargo transportation in domestic commercial flights showed an increase, the rest of the services showed a decrease.

Investment

In the first quarter of 2002, the Gross Domestic Invest-



ment measured at constant prices showed once more a minimum historic value, with a record drop of 46.1% y/y.

The noticeable drop was due to very sharp decreases in investment in equipment (-55.7%) and in construction (-40.4%). During the quarter, the decrease in investment became more evident in imported equipment than in locally made equipment, as a consequence of the depreciation of the peso. While the imported one dropped 72.6%, the locally made one dropped 35.6%. The price increase of the imported equipment plus the drop in disposable income and the low activity in several industries due to the lengthy recession, brought about a dramatic drop in investment. The lack of financing, both external and domestic (a result of the financial crisis), contributed to hinder investments which were necessary to mitigate the amortization or aging of equipment.

Measured at current values, the investment in the first quarter was $ 24,735 millions, the lowest value historically. The drop in investments knocked down the ratio GDFI (Gross Domestic Fixed Investment)/ GDP (Gross Domestic Product) to minimun values (10.6%).

During the months following the first quarter, the construction continued to show negative values, like the SICA [Synthetic Indicator of Construction Activity], which in April-May decreased 35.4%, because the sales and production of several key products were also noticeably reduced. In the case of cement, the sales were 35.4% lower than a year before, and also the sales of glass (-32.8%), pipes (-25.4%), and the production of iron (-24.8%) decreased.

The building permits decreased noticeably in the two months mentioned earlier (-52.2%). Only the executed deeds of conveyance) increased in April and May (45.3% and 65.7% respectively), given the flexibility to purchase property with locked up deposits ("corralito"). The prospects for the month of June continued to be unfavourable. More than 40% of the companies in the construction business (whether dedicated to the construction of private buildings or to public works), expected a decrease in the level of activity, and consequently, of the employment.

In the second quarter, the sales of locally made motor vehicles in the domestic market continued to decrease. The sales of freight and passenger vehicles decreased 46.9% and the sales of automobiles decreased 45.2%.

With regard to the import of capital goods, in April-May the variation shows an important decrease of 75%.

Labor Market

According to the basic information provided by the companies to the Integrated System of Retirements and Pensions, the monthly average of declared jobs during the first quarter of 2002 reaches 4,379,656 jobs, which means a decrease of 10.1% compared to the same period last year. At the same time, the average monthly salary was $ 905 for the quarter, that is, 1.9% below the average recorded in the first quarter of 2001.

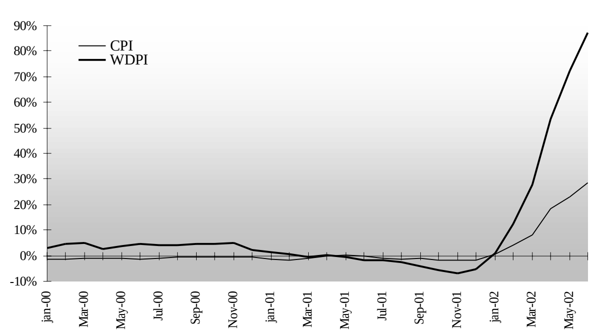
The good-producing sector showed a decrease of 15.6% of the number of jobs declared compared to the same quarter of last year. The activities that showed the greater decreases were: Construction, with 39.7% fewer jobs, and Industry, which showed a drop of 12.7%. Within Industry, three sectors stand out: Machinery and equipment, with a decrease of 19.4%, Metal industries, with a decrease of 18.6%, and Textiles and leather, with a decrease of 17.4%.

As for the average salary, the sectors which had the higher increases were the producers of goods, like Construction, with an increase of 18.5%, and Agriculture, with an increaseof 15.1% in the number of jobs. The Manufacturing industry also showed an increase, even though more moderate, of the average salary (5.4%). In this last case the increase was driven by the Oil and Chemical Products sector.

Prices

At the beginning of 2002, the sudden depreciation of the Argentine currency marked an abrupt change to what had been the usual functioning of the economy during the previous decade. As a consequence of the new macroeconomic framework, during the first months of 2002 the nominal exchange rate increased sharply, while the price index started to reflect the effect of the peso depreciation on the internal costs as well

YoY Changes in Retail and Wholesale Price Indexes



as a noticeable modification of the relative prices. The wholesale prices (which show the performance of the good-producing sectors for foreign transactions), increased much more than the retail prices (where the service-producing sectors that are not for foreign transactions have a big impact). At the same time, among the wholesale prices, the prices of the imported goods increased much more than those of the locally made goods, and among the retail prices, good prices increased more than those of the services.

It is to be noticed that, overall, the effect of the depreciation of the peso on the prices was relatively low, contrary to previous forecasts of many economic analysts.

During the fist quarter of 2002 GDP implicit prices index increased at a rate of 6.3 % annually, consumer price index increased at 7.9%, wholesale at 27.8% and the one related to construction increased at 10.8%. Thus, combined prices index increased 17.7% annually in the first quarter. The increase of internal prices were motorized by the strong rise of the nominal exchange rate, which increased 140% till last March, because of this situation the real multilateral exchange rate improved notably (approximately 90% in the first quarter deflated by the combined price index). Contrary, foreign trade terms rate decreased 9.7% annually, because of a strong reduction in export prices, weakly compensated by a decrease of the import prices. Average prices of the commodities decreased 6% during the first quarter 2002, reductions for oil and metals were higher, while some raw agricultural materials began to increase.

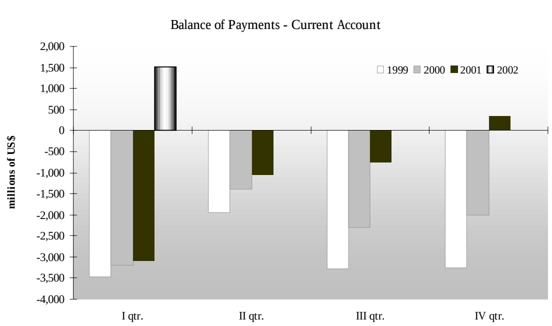
Internal prices´ increase continued till May, when the monthly inflation rate began to slow down. Till the end of the month nominal exchange rate increased 230% annually, so international power purchase of the peso reduced 70% in only one semester.

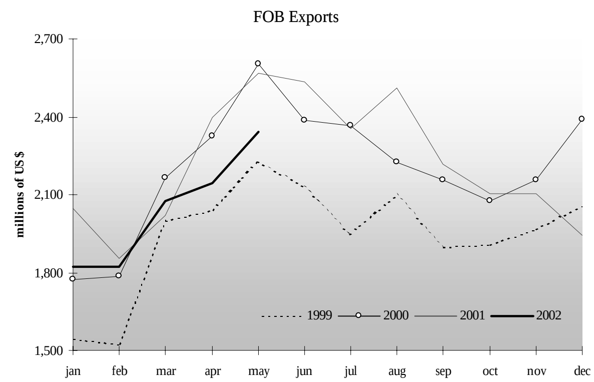
In May, consumer prices index accumulated an increase of 23% annually, wholesale 72.3% and the rise of the combined prices index was up to 46.1%. The real exchange rate increased about 125%, over its level of the last 11 years and also the average level of the ´80s. It should be emphasized that the convertibility period was characterized by a relatively low exchange rate, but the current depreciation led it to a relatively high level.

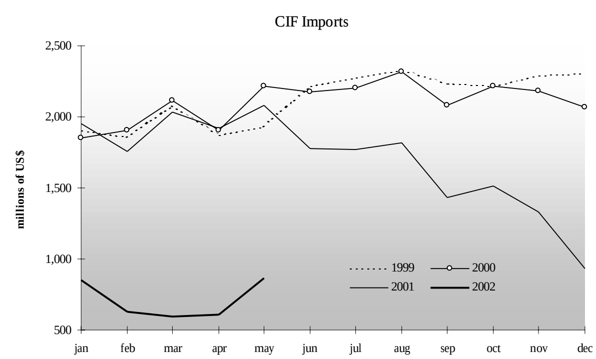
External Sector

During the first quarter of 2002 the current account estimate of the balance of payments registered a positive balance of US$ 1,511 millions, compared to a deficit of US$ 3,078 millions during the first quarter of 2001. Meanwhile, the capital and financial account balance during the first quarter was negative, US$ 2,963 millions (include arrears), so there was a net capital outflow.

The trade surplus was of US$ 3,750 millions compared to US$ 478 millions of the same period last year. Imports decreased 64% year on year, reaching US$ 1,950 millions, while exports were of US$ 5,705 millions, 3.2% lower y/y. The strong quantitative imports decrease was verified in all of the components, and affected uniformly all the originating in markets. Prices of exports reduced 11.1% compared to the same period of last year, and the decrease was in all of the components. The exported volume increased 9.1%, due to the positive evolution in fuel, MAO and primary products, in less quantity MIO.



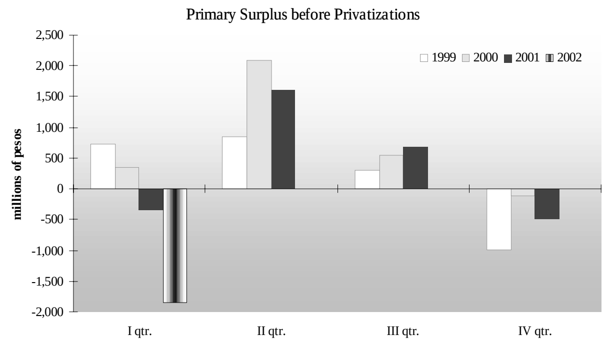




Export value decreased 7.1% q/q, due to a price reduction of 9.5% because the volume increased 2.6%. Imports during the fourth quarter were similar to the ones reached during the fourth quarter of 1992, when the openness of the economy was beginning.

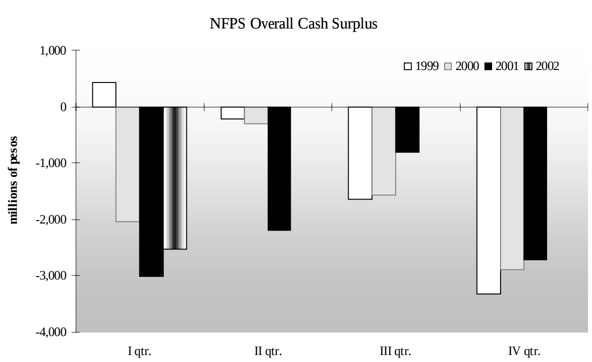
Due to political and economic crises, the increase of trade surplus during the first quarter and the cumulative arrears of public sector due to the postponements of payments were not channeled to the accumulation of international reserves. On the contrary, they have fallen (-US$ 2,133 millions). This money was channeled to increase private sector´ external assets for an amount of US$ 2,600 millions, approximately, and a little part to the cancellation of private liabilities.

It is supposed that a big part of the remaining debt would be refinanced. Under the uncertainty, a big part of the trade surplus and the reserves were directed to the accumulation of assets abroad. It was estimated that this stock increased about US$ 2,600 millions. In the other hand, incomes from direct foreign investment during the first quarter practically disappeared of the Balance of Payments.



Public Finance

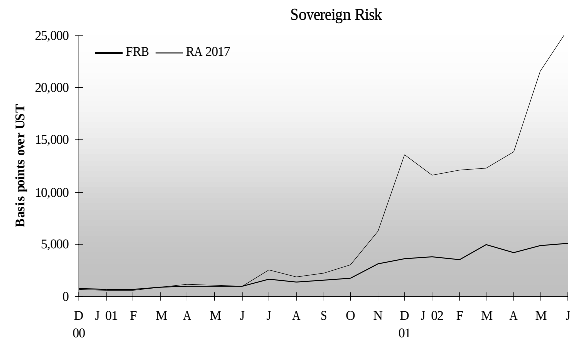
During the first semester of 2002 the global result of Non Financial National Public Sector (NFNPS) cash based registered a deficit of $ 2,518.3 millions. Compared to the first quarter of 2001 the deficit registered an increase of $ 499.4 millions, mainly due to the decrease on expenditures was higher than the one accounted on the income side. The results of the quarter do not vary significantly if it is taken into account income from privatizations, which are marginal.



On the contrary, primary deficit (excluding public debt interest payments), discounting income from privatizations, is over the one registered during the first quarter of last year for about $ 1,508.8 millions, due to the inclusion of Fiduciary Funds, specially the one of Provinces Development. If Road and Hydrical Infraestructure and Provincial Development Fiduciary Funds were excluded, the primary deficit would continue exceeding the one of the previous year for $ 326.8 millions, it could be concluded that the effort to reduce primary expense was surpassed by the reduction on the income side. The decrease on current income during the quarter (- $ 2,962.8 millions) was due mainly to the development of tax revenue, followed by the contributions to the Social Security, properties rentals and operation income. Taxation income reduced for $ 2,080.2 millions (- 22.4%).

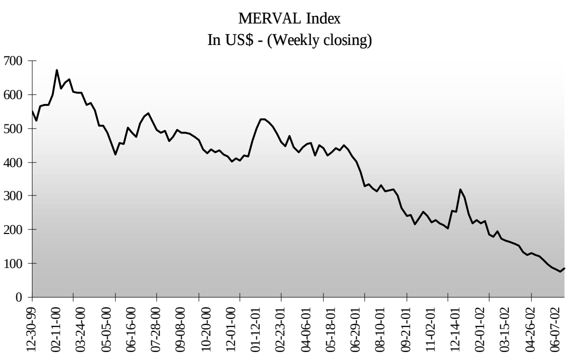
During the quarter current expenses experienced a decrease of $ 3,103.6 millions q/q. The decrease was a consequence of a strong reduction in all of the components. The decrease was stimulated mainly by a reduction on property rentals, with a decrease of $ 1,982.6 millions on interest payments on external debt. Consumption and Operation expenses were cut by 17,1 % interannually ($ 435.4 millions), composed by a decrease of 10,7% on Salary Payments and 33% on Goods and Services Expenses. While the cut on Current Transfers (45,2% of Current Expenses) reached $ 350.6 millions, explained by lower transfers to states. It was also remarkable the decrease on Social Security during the quarter, with a cut of $ 308.2 millions (-7%).

The global deficit of $ 2,518.5 millions for the quarter is composed by a misalignment between costs and income of $ 1,154.3 millions of National Management, due to former Provincial Pension Schemes deficit of $ 261 millions and Public Companies (including the the execution of Provincial Development Fiduciary Fund) for $ 1.103,2 millions.



Capital Markets

During the first quarter of 2002 economic and financial Argentine crises was deepened. As a consequence, financial asset prices continued decreasing, following 2001 trend. The value of shares stock that participate in the MERVAL index (expressed in dollars) reduced till 203 points in average, with a decrease of 13% compared to 233 points during 2001. Nevertheless, because of the peso depreciation, the index increased 36% in pesos compared to December 2001, reaching a value of 402 points last March. Government bonds also decreased (Brady and Globales), because the sovereign implicit risk reached 4400 bp in average, approximately 50% higher q/q. In a context where the outflows of capital from the banking system continued generating international reserves loss, economic and financial crises provoked a severe contraction in real activity, and GDP of first quarter decreased 16,3% (historic record), with a much higher decrease on investment.



The peso depreciation on January 2002 was a consequence of a strong liquidity restriction and the high increase of internal interest rates. At first, an orderly exit from convertibility was intended through an official dollar for external trade transactions of 1,40 pesos and other free. This policy was abandoned on February, when the exchange market was liberated and unified. Domestic financial assets and liabilities denominated in dollars were transformed to pesos, at a conversion rate of 1,40 pesos per dollar for liabilities. Besides, banking deposits were reprogrammed. The crisis provoke a strong increase of rediscounts to the financial system because of the constant withdrawals of deposits, generating a pressure to the exchange rate due to the lack of savings instruments.

In this context, negotiation with IMF to refinance the public debt was extremely difficult, even after Argentina comply with the conditions asked. The new economic authorities, who took the office up on April, applied an increase to export taxes for primary products. On June the possibility to recover reprogrammed savings in pesos and dollars through a volunteer swap to newly issued Government bonds (BODEN) at 3, 5 and 10 years was implemented. The argentine peso have fallen in six months below the brasilian real, with an accumulated devaluation of more than 70%, only comparable to the russian rublo at the end of 1998. During the first weeks of June the domestic Stock Market have fallen till the minimum of 80 points measured in US dollar, with a loss of 60% q/q. The JP

Morgan index that measures sovereign risk increased to 7,000 bp, while negotiations with international organizations were held to get an agreement for a global public debt refinancing for this year.

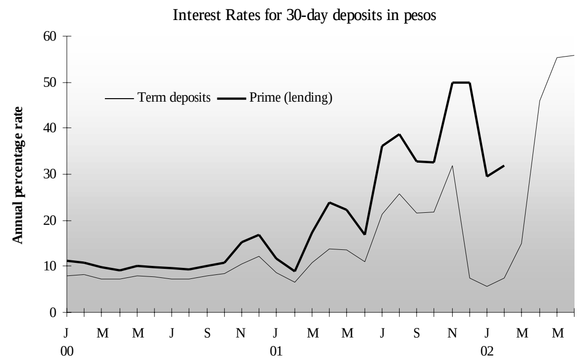
International scene was characterized by contradictory signals from United States, that anticipated a moderated recession. The down turn of American Stocks Markets was deepened on June, as a reflect of the decrease on earnings in high tech sectors (telecommunications, semiconductors, internet and computing), while the consumption increase was stopped. The Federal Reserve in its meeting on June 2002 decided to keep short run interest rates at 1.75% annually (historic minimum), due to the down turn on stock markets and existing difficulties to reinitiate the growth.

During the first months of the year many bankruptcies and audit frauds were known. These facts generated doubts over the transparency of account statements and American regulatory framework, affecting consumer confidence. In Latin America, argentine crises and difficult situation of Brazil provoked an increase in financial volatility in Mercosur, where Uruguay was the most damaged by a banking crises and a strong international reserves loss. Both countries were helped by IMF. The consequences were felt by the rest of Latin America, contributing to a US dollar depreciation compared to euro and yen.

Money and Banking

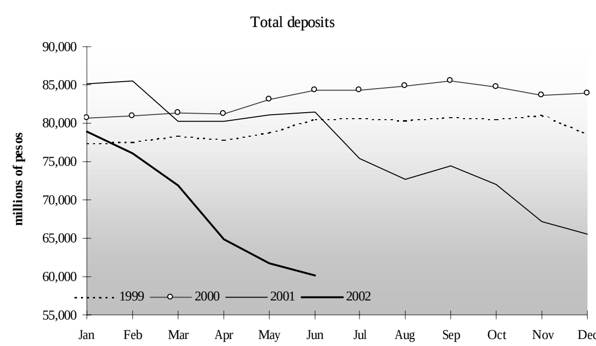
During the first five months of 2002, monetary and financial variables have evolved under the new monetary and exchange system and financial restrictions imposed on December 2001 and modified along 2002.

The lack of confidence on financial system and the local currency generated that people take out their deposits from banks and pressured exchange market. Between January and may of 2002, the total of private deposits (in pesos plus dollars *pesoified* at $1,40/U$S) decreased $ 11,321 millions, with a daily average variation of $ 114 millions.



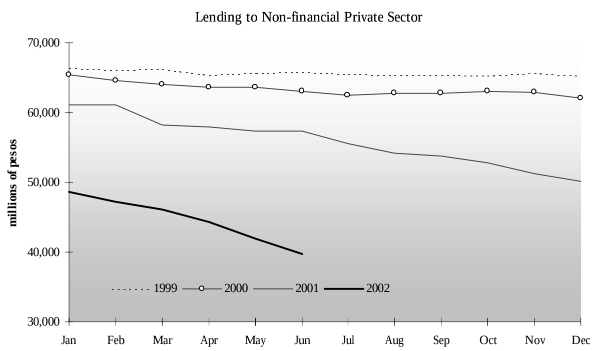
To stabilize the dollar price, the BCRA [Central Bank of Argentine Republic] intervened exchange market, with the consequent international reserves loss. At the end of May, BCRA had U$S 10,185 millions on reserve, with a decrese of U$S 4,361 millions compared to December 2001.

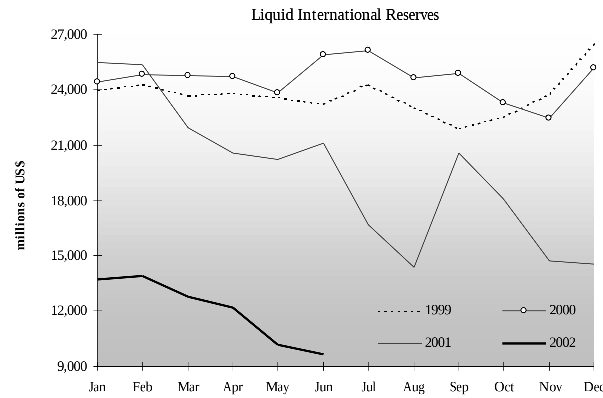
The liquidity level of the system relied on the policy to create money implemented by BCRA. The availability of do-



mestic money relied on BCRA net internal assets movements and the issuing of BCRA notes (LEBAC) since the middle of March. Rediscounts and active repos to financial sector increased by $ 10,343 millions during the first five months 2002, and payments in advance to the National Government were $ 700 millions.

The evolution of interest rates was affected by financial restrictions and *pesoified* deposits, these two factors prevented to find a representative market interest rate. The LEBAC bidding tried to absorb pesos, to establish a market interest rate in pesos, these events began to occur since the end of March (average rate for 7-day term notes reached 83.4% in May).





Selected Macroeconomic Indicators
I. Quarterly and Annual Indicators

	Source	Unit	I-01	II-01	III-01	IV-01	I-02	1999	2000	2001
National Accounts										
GDP	(1)	YoY % Chg.	-2.0	-0.2	-4.9	-10.5	-16.3	-3.4	-0.5	-4.4
Goods	(1)	YoY % Chg.	-4.7	0.9	-5.1	-12.3	-20.1	-5.4	-3.0	-5.2
Services	(1)	YoY % Chg.	-0.8	-0.8	-5.0	-9.3	-13.5	-1.5	0.5	-4.0
Private Consumption	(1)	YoY % Chg.	-1.8	-2.1	-6.5	-12.3	-20.9	-2.7	-0.4	-5.7
Public Consumption	(1)	YoY % Chg.	0.5	0.4	-2.1	-6.6	-7.5	0.8	-0.4	-2.1
GDFI	(1)	YoY % Chg.	-9.5	-6.2	-17.2	-28.6	-46.1	-12.8	-8.6	-15.7
Construction	(1)	YoY % Chg.	-6.8	-0.9	-8.8	-20.6	-40.4	-12.1	-8.7	-9.4
Locally-manufactured Machinery and Equip.	(1)	YoY % Chg.	-18.0	-18.9	-21.6	-29.5	-35.6	-11.7	-9.0	-22.1
Imported Machinery and Equipment	(1)	YoY % Chg.	-9.9	-9.7	-35.7	-50.8	-72.6	-15.5	-7.9	-27.6
Exports of Goods and Real Services	(1)	YoY % Chg.	0.7	4.6	5.7	-0.4	5.4	-1.4	2.0	2.7
Imports of Goods and Real Services	(1)	YoY % Chg.	0.8	-4.2	-17.9	-33.7	-58.0	-11.7	-0.5	-13.9
External Sector										
Current Account	(2)	in millions of US$	-3,078	-1,063	-750	-341	1,511	-11,945	-8,864	-4,429
Merchandise	(2)	in millions of US$	478	2,045	2,337	2,591	3,750	-795	2,558	7,507
Real Services	(2)	in millions of US$	-1,517	-1,013	-980	-587	-687	-4,056	-4,288	-4,021
Financial Services	(2)	in millions of US$	-2,099	-2,134	-2,143	-1,718	-1,605	-7,473	-7,370	-8,095
Unilateral Transfers	(2)	in millions of US$	61	39	36	55	53	379	235	180
Changes in International Reserves	(2)	in millions of US$	-3,877	-1,483	-89	-6,556	-2,133	1,201	-439	-12,083
Exports of goods (FOB)	(3)	in millions of US$	5,921	7,500	7,083	6,151	5,742	23,326	26,410	26,655
Imports of goods (CIF)	(3)	in millions of US$	5,742	5,777	5,017	3,775	2,072	25,508	25,243	20,312
Trade balance	(3)	in millions of US$	179	1,723	2,066	2,376	3,670	-2,182	1,167	6,343
Export price index	(3)	% Chg. in period	-2.1	-4.9	2.0	-4.8	-3.7	-11.2	10.2	-3.5
Import price index	(3)	% Chg. in period	1.3	-1.9	-2.9	-1.8	5.3	-5.6	0.0	-2.9
Terms of trade index	(3)	% Chg. in period	-3.4	-3.0	5.1	-3.0	-8.4	-5.9	10.2	-0.6
Public Finance										
NFPS overall surplus (incl. privatizations)	(4)	in millions of $	-3,015	-1,580	-802	-2,713	2,519	-4,769	-6,792	-8,110
Total tax revenue	(4)	in millions of $	11,305	12,818	11,424	9,856	9,489	47,643	49,102	45,403
Public debt	(4)	in millions of $	127,401	132,143	141,252	144,453		121,877	128,018	144,453
Money										
Bimonetary deposits	(5)	in millions of $	80,658	81,447	72,001	65,601	71,945	78,662	83,913	63,059
Bimonetary M3	(5)	in millions of $	91,939	92,363	81,291	74,598	84,150	92,383	96,470	74,598
Interest rates										
30-day deposits in $	(5)	%	10.8	11.0	21.72	7.42	15.05	10.3	12.3	7.4
30-day prime loans in $	(5)	%	17.3	16.8	32.62	n.a.	n.a.	13.5	16.9	n.a.
Capital Market										
Merval (in US$)	(6)	% Chg. in period	6.5	-9.4	-39.3	21.3	-46.7	28.4	-26.7	-29.3
Burcap (in US$)	(6)	% Chg. in period	6.8	-9.9	-22.7	48.3	-32.6	26.9	-27.7	10.3
Discount strip	(6)	Basis points (*)	1,155	1,347	1,728	3,906	4,192	767	1,066	3,906
FRB	(6)	Basis points (*)	1,048	1,292	2,217	13,615	12,276	589	681	13,615

(*) Spread on US Treasury Bonds, month-end data

Source: *(1) National Bureau of National Accounts - INDEC [National Institute of Statistics and Census]*

(2) National Bureau of International Accounts - INDEC [National Institute of Statistics and Census]

(3) INDEC [National Institute of Statistics and Census]

(4) Secretariat of the Treasury - Ministry of Economy

(5) BCRA [Central Bank of the Argentine Republic]

(6) National Bureau of Credit Information and Negotiation - Ministry of Economy

(7) Association of Portland Cement Manufacturers

Selected Macroeconomic Indicators (*)
II. Monthly Indicators

	Source	Unit	Oct-01	Nov-01	dec-01	jan-02	Feb-02	Mar-02	apr-02	May-02	Jun-02
Activity											
Monthly Industrial Estimator	(3)	Var. % 1 month (s.a.)	-1.5	-1.9	-2.4	-3.2	1.3	-3.5	3.5	0.6	
		Var.% 12 months	-9.3	-10.8	-18.8	-19.0	-15.3	-20.2	-12.4	-12.3	
Investment											
Cement shipments	(7)	Var.% 12 months	-20.3	-17.1	-34.6	-38.4	-42.5	-32.6	-38.6	-31.9	-31.7
Import of capital goods CIF	(3)	Var.% 1 month	-0.7	-19.6	-5.6	-27.9	-39.0	-10.3	-24.1	142.4	
	(3)	Var.% 12 months	-38.7	-49.2	-60.3	-62.3	-73.4	-78.4	-83.6	-65.8	
Labor market											
Activity rate	(3)	%	42.2	-	-	-	-	-	-	n.a.	-
Employment rate	(3)	%	34.5	-	-	-	-	-	-	n.a.	-
Unemployment rate	(3)	%	18.3	-	-	-	-	-	-	n.a.	-
Prices											
CPI	(3)	Var.% 1 month	-0.4	-0.3	-0.1	2.3	3.1	4.0	10.4	4.0	3.6
WDPI	(3)	Var.% 1 month	-1.5	-1.4	-0.2	6.7	11.3	13.1	19.9	12.3	8.2
WBDPI	(3)	Var.% 1 month	-1.6	-1.4	-0.2	7.2	11.8	13.7	20.0	12.8	8.5
PBPI	(3)	Var.% 1 month	-1.7	-1.2	-0.2	6.9	9.9	14.3	19.3	12.7	9.1
CCI	(3)	Var.% 1 month	-0.5	-0.2	0.0	2.6	5.8	4.2	7.1	3.6	3.0
Public Finance											
Revenues from DGI, ANA and SSS	(4)	$ millions	3,596	3,468	2,819	3,411	3,001	3,077	2,884	4,827	
VAT	(4)	$ millions	1,079	1,090	825	1,009	1,027	1,036	899	1,511	
Income tax	(4)	$ millions	728	719	641	623	469	480	433	893	
Social security revenues	(4)	$ millions	648	595	434	749	595	528	528	709	
Foreign trade	(4)	$ millions	110	105	69	67	69	168	309	554	
External sector											
Exports of goods (FOB)	(3)	US$ millions	2,104	2,103	1,944	1,812	1,855	2,075	2,146	2,343	
Imports of goods (CIF)	(3)	US$ millions	1,511	1,333	931	853	627	592	611	862	
Balance of trade in goods	(3)	US$ millions	593	770	1,013	959	1228	1,483	1,535	1,481	
Liquid BCRA reserves	(5)	US$ millions	18,089	14,753	14,551	13,947	13871	12,780	12,171	10,185	9,629
Nominal exchange rate	(5)	$/US$	1.00	1.00	1.00	1,40 (***)	2.15	2.90	2.95	3.60	3.80
Money											
Bimonetary deposits (#)	(5)	$ millions	72,001	67,118	65,601	78,917	76,116	71,945	64,799	61,715	60,156
Bimonetary M3 (#)	(5)	$ millions	81,291	75,688	74,598	88,274	85,411	84,150	77,961	76,745	75,005
Rates of interest											
Deposits in $ at 30 days	(5)	%	21.72	31.94	7.42	5.53	7.61	15.05	46.00	55.27	55.73
Prime loans in $ at 30 days (##)	(5)	%	32.62	49.96	n.a.	29.53	31.92	-	-	-	-
Capital market											
Merval	(6)	Var.% 1 month	-7.7	-10.2	46.0	-24.1	-14.6	-17.8	-15.1	-33.7	3.8
Burcap	(6)	Var.% 1 month	-3.8	2.7	50.2	-29.1	-3.1	-1.9	-14.4	-14.3	1.3
Discount strip	(6)	Basis points (**)	1,863	3,910	3,906	3,944	3,663	4,192	3,662	4,268	4,430
FRB	(6)	Basis points (**)	3,029	6,238	13,615	11,605	12,066	12,276	13,843	21,548	34,020

(*) These tables are based on the latest information available at the printing date of this ECONOMIC REPORT. Therefore, some figures may differ from those included in other chapters since they were prepared at different closing dates.

(**) Spread on US Treasury bonds - Last Friday of each period.

(***) Corresponds to the official exchange rate quotation. The free market monthly closing was 1,94 $/US$. From next month (February 2001) up today, a single and free market is in rule.

(#) Since January 2002 the rules and regulations of the exchange rate arrangement disposed of by Law Number 25,561 stated the report $ 1,40 = U$S 1

Thus and in accordance with Decree Number 214/02 about rearrangement of the financial system, since January 2002 all deposits are presented as the sum of the deposits in pesos and of those in dollars converted into pesos according to the relation $1,40=U$S1. Same method was used in the case of M3 aggregate.*

(##) By the time being there is no possibility to have up to date information because the informing entities have not predetermined a policy of interest rates for this kind of loans

Sources: *(1) National Bureau of National Accounts*
(2) National Bureau of International Accounts
(3) INDEC [National Institute of Statistics and Census]
(4) Secretariat of the Treasury
(5) Central Bank of the Republic of Argentina
(6) National Bureau of Credit Information and Negotiation
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