



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

■ During the second quarter of 2002 there was a certain recovery regarding the level of economic activity. A large period of quarterly falls in seasonally adjusted GDP was thus interrupted. Those had, furthermore, been greater in the last two quarters of 2001 and the first quarter of 2002, in which the reductions had reached quarterly averages of 5 %, always in seasonally adjusted terms. In fact, in the quarter being studied the GDP grew 0.9 % with respect to the previous quarter (seasonally adjusted terms), and fell 13.6 % (non-seasonally adjusted) with regards to the same quarter of 2001.

The data for the two months following the second quarter, that is, July and August, though weaker than the previous months, allow to consider the possibility that the fall in activity may have reached its lowest level in the first quarter of 2002 and its recovery phase may have begun. The relative weight within the EMI of the sectors that show seasonally adjusted growth during the first eight months of 2002 account for approximately 75% of the total value. Nevertheless, these first positive signs need to be confirmed with new data to allow to declare the recessive phase of the cycle is over. It is fair to say, the insinuated recovery is not free of risks, which makes necessary that the economic policies continue on the task of solving the more important imbalances that still affect the Argentine economy.

Up to now during 2002, a real depreciation of the peso

has been generated (albeit somewhat less strong in the third quarter), resulting from the persisting rise in the nominal exchange rate, together with a low translation to domestic prices. This low translation of the depreciation to prices (or “pass-through”) may be explained, on one hand, by the inheritance of low inflation from the period previous to the exchange rate modification, and on the other on the following period, by the consolidation of monetary and fiscal policies consistent with a low inflation rate. Those events made it possible that the notion of the fundamental relative prices of the economy was not lost. Thus, and given the magnitude of these changes, the modifications that can be perceived in the relative productions of the different productive sectors should not be surprising. Together with the change of relative price of internationally tradable and non-tradable goods, an important change in relative prices of productive factors can be perceived (salaries are cheaper with respect to capital income). Therefore, according the seasonally adjusted series which compose the Monthly Industrial Estimate (MIE) of the INDEC, it can be perceived that the sectors which exhibit greater rates of recovery after the liberation of the exchange rate are those that produce internationally tradable goods (either for export or substitution of imports), and in particular those that are relatively more labor – intensive.

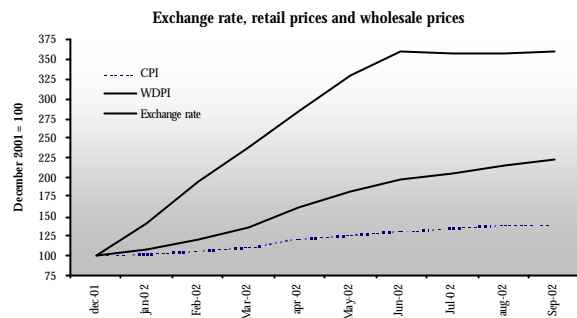
These effects, prevalent in the short term (but which are expected to last for years), do not necessarily define the

* This document is a summary in english language of the main subjects published in the “Informe Económico N° 42”. The complete spanish version is available at <http://www.mecon.gov.ar/informe/informe42/indice.htm>.

structure of the economy in the long term, and should be contained with a real appreciation of the exchange rate that should accompany the recovery phase of the economy. Indeed, it should be produced more by a fall or stability of the exchange rate than by a rise in inflation rate.

One of the battles that have been won is to defuse the fears that a hyperinflation process could be triggered. In fact, the second quarter begun with a very unfavorable evolution of internal prices, with rises of 10.4 % in the consumer price index and 19.4 % for wholesale prices in the month of April. Such figures caused that by the end of that month and the beginning of May many economic observers and analysts, (Argentine and foreign) expressed pessimistic views regarding the imminence of a hyperinflationary process. Far from that, the inflation rate fell substantially in the next five months until reaching 1.3 % for consumer prices for September, and even if wholesale inflation was higher, its tendency was markedly negative. The reason for this better performance of prices was the stability exhibited by the exchange rate due to a proper use of monetary policies in consistency with a prudent fiscal policy. In the last few months the monetary policy was aimed at reducing the important monetary imbalances that had been experienced in the first part of the year that culminated in large financial aids from the BCRA to entities. As the “ghosts” of hyperinflation disappeared, a very slow recovery of deposits took place, and consequently a larger demand for monetary base appeared, the demand of assistance from the BCRA to financial entities waned and together with a greater acceptance of bank notes issued by the BCRA (LEBAC), it was observed a substantial reduction of the intervention of the BCRA in the exchange market. The improvement in the monetary and financial environment was to such extent that the BCRA begun to recover international reserves while maintaining exchange rate stability. The absence of mechanisms of indexation of prices and

salaries, de-activated since the beginning of the 90s, also contributed to the reduction in inflationary rates.



Another no less relevant factor was the improvement in fiscal accounts, which showed an important recovery during the second quarter. Tax collection fell 3.8 % year-over-year (that is to say, compared to the same quarter of 2001), in contrast with the 16 % year-over-year falls in the two previous quarters. The establishment of export taxes, together with the strong nominal depreciation of the exchange rate, made taxes to foreign trade the major factor of the better tax collection performance, accounting for \$ 1,064 million more than in the same period of 2001.

In the following two months, July and August, this tendency was consolidated even more, since foreign trade (an additional \$ 1,300 million was collected) added to the rest of the taxes which have already begun to show annual positive variations, basically as a result of inflation. It is true that in the last months taxes to foreign trade already represent 17 % of total collection, when in 2001 their participation was only 4 %.

The better performance regarding income was reinforced by a strong contraction in nominal expenditure (of about 15 % in the national public sector), although its greater part results from arrears in interest payments. Even though nominal primary expenditure was reduced only 4 %, a strong dimi-

nution in real terms was produced, when the effects of inflation are considered.

A fact that somewhat taints the improvement in tax collection is the importance attained by the payment of taxes through the use of provincial quasi-currencies and national bonds. Although the quasi-currencies can be used by the Government as payment for an important number of transactions, the collection in bonds brought a considerable amount of problems, basically benefiting a small number of large businesses instead of small and middle businesses linked to regional economies, as would have been optimal.

Because of this, with the intention of avoiding an imbalance in provincial accounts, the National Government established a temporary suspension (90 days) in tax payments using bonds which carry such possibility in its conditions of issuance. In that period it is expected that a law will be formulated that establishes a means to rescue that debt without damaging the provinces' income.

Another important factor of the quarter was the fact that during that period, the most dramatic moments of the financial crisis produced at the end of 2001, that went on for the first four months of 2002, were overcome. As from May, there were no more bank or exchange holidays, after a period of five months in which the numerous and prolonged banking holidays inserted engendered difficulties in the chain of payments and the normal performance of real activity.

Far from an out-of-control situation, the BCRA perceived a substantial improvement in the financial area, which became more evident well into the quarter. The "dripping" of deposits fell from an average \$ 4,700 million per month in the

months of March, April and May, to \$ 2,040 million in June. The assistance of the BCRA to the financial system went down from \$1,900 million and \$ 2,427 million in April and May¹ to only \$ 607 million in June, only to go down a lot more further on.

Following the second quarter the financial situation showed new progress. The "dripping" of deposits was only of \$ 667 million, and in August the tendency was not only consolidated but reverted: for the first time in 2002 the financial system showed an increment in deposits of \$ 1 billion. The assistance to the financial system barely surpassed \$ 200 million monthly.

The growth in deposits in pesos linked to real activity transactions (almost \$ 1,200 million in August), driven by the high interest rates for the period, allowed the entities to recompose their liquidity reserves. At the same time, this reduced monetary expansion by the BCRA via rediscounts, causing the variation in Net Internal Assets (NIA) to be negative for the first time in 2002, because the BCRA actively continued its absorption policy by means of Central Bank Notes (LEBAC).

The BCRA bought, in the months of July – August close to US\$ 600 million through its operations in the exchange market while the exchange rate closed at the end of August at \$ 3.62, which is lower than the rate for June, \$ 3.80. In that way the excessively high exchange rate is allowing the BCRA to re-acquire the dollars hoarded by the private sector to make payments to international organizations, in contrast to other financial crises in which precisely those last inject compensatory capital to settle the imbalance of payments.

Since Argentina still possesses a reasonable level of reser-

¹ Of the \$ 2,427 millions of May, 30 % corresponds to assistance to a single entity. The rest of the system demanded assistance for \$ 1,700 millions.

ves (representing 156% of the monetary base), there is no risk that a small reduction in the level of reserves could cause an escalation of the exchange rate. Anyway, as from the last week of August the amount of international reserve gains falls as a consequence of a certain nervousness generated by the presumption, of local and foreign analysts, of a lack of coordination among the main powers of the State. This was perceived after the apparition of certain measures such as declaring unconstitutional the decree that originated a reduction in 13% in the income of state employees and pensioners set in 2001, the delay in the application of the CER index until October and the deferment of judicial executions of small debtors.

Regarding the foreign sector, the new situation brought forth by the abandonment of Convertibility regime still has repercussions, and substantially, on the whole of the balance of payments, but in particular on the merchandises account and the formation of assets abroad. In fact, the trade surplus for the second quarter was US\$ 4,542 million (as opposed to US\$ 1,722 million for the same period of 2001), resulting from a fall in exports that was much less than that of imports (-10.6% and -62.6%, respectively). In the first seven months of 2002 the trade balance rose to US\$ 9,588 million, which is US\$ 7,000 million higher than that of the same period of 2001. At the same time, international reserves fell US\$ 2,836 million during the second quarter of 2002, and together with the greater trade surplus and the accumulation of arrears in the financial payments of the public sector, this caused in compensation a strong formation of foreign assets of the private sector (close to US\$ 3,350 million), and, to lesser effect, the cancellation of private liabilities.

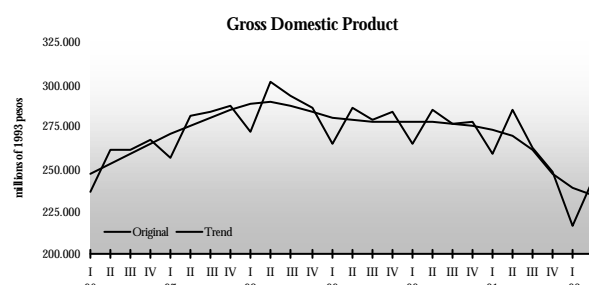
Next, as is traditional in this Chapter, a summary of the specific chapters of this Economic Report is offered².

Economic activity

The macroeconomic development in the second quarter of 2002 determined, according to provisional estimates, a negative variation of 17.9% in the global supply, measured in prices of the year 1993, compared to the same period of the previous year. This decrease was the result of a fall of 13.6% of the Gross Domestic Product, and a sharper decrease of 56.7% in the imports of goods and services.

Regarding the global demand, there was a negative variation of 43% in the gross domestic investment, and a decrease of 0.8% in the exports of goods and services. The decrease of private consumption was 16.7%, while public consumption showed a decrease of 4.2%.

The added value of the good-producing sectors experienced a negative variation of 13.4% during the second quarter of 2002, determined basically by the decrease of the level of activity in the manufacturing industry (-16.5%) and construction (-41.2%). This was somehow softened by the results of the agricultural and farming activity (+4.4%) and fishing (-5.0%). The service-producing sectors registered an year-over-year decrease of 11.6%.

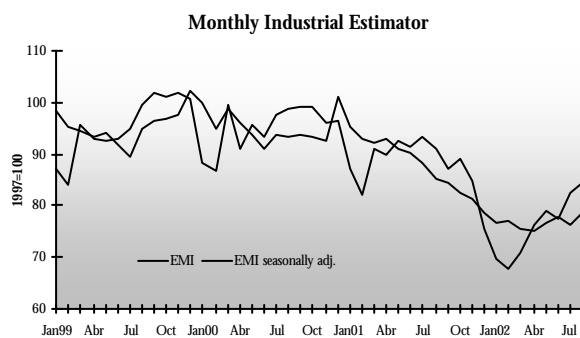


² Chapters can be obtained at <http://www.mecon.gov.ar/informe/informe42/indice.htm>, only in Spanish.

The variation of the seasonally adjusted GDP of the second quarter of 2002 compared to the previous one shows an increase of 0.9%, following the deep fall registered in the first one.

At current prices, the GDP arrived to \$ 333,771 millions in the second quarter. The y-o-y increase of 15.9% was due to the evolution of the general level of prices, measured by the Implied Prices Index in the Value Added (GDP deflector), that experienced in the period an increase of 34.1% compared to the same quarter of the previous year. However, a big heterogeneity can be observed in the price sector variation, since the good-producing sectors registered a variation of 85.9% y-o-y and the service-producing sectors 7.1% y-o-y.

The added value of the manufacturing industry resulted 16.5% lower to the same period of the previous year at constant prices, and, on the other hand, 30.2% higher at current prices. The accumulated fall by the industry as from the beginning of the recession, to be precise as from second quarter of 1998, reached the 29.5% in real terms, what is known as the longest depression ever. Recently, the Monthly Industrial Estimator (EMI) fell again in the months of July (-11.6%) and August (-7.5%), compared to the same periods of the previous year, but the fall appears to be slowing down, since the variation of the previous month in seasonally adjusted terms showed recoveries in May, in June and later in August (2.7%). Besides the areas of basic metal industry and metalmechanic industry,

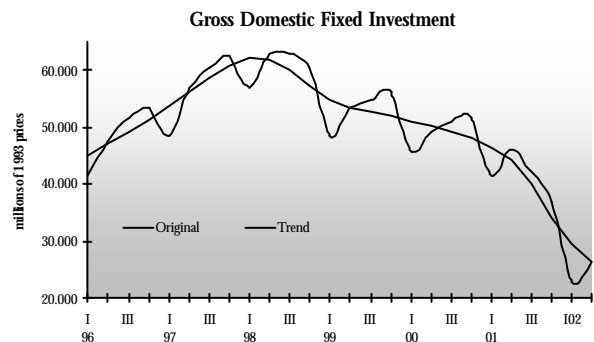


which have expanded, the others showed y-o-y falls that ranged from -0.1% (paper and carton) and -37.3% (editing and printing). The increases that steel (46%) and primary aluminum (18.1%) registered were mainly due to a stop of production in the plant last year and the important increase of the sector exports.

The Utilities Indicator continued falling. In the months of July and August y-o-y decrease in consumption reached 5.7% and 6.8%, respectively, registering the steeper fall in the cargo and passengers transportation, both rail and air, as well as in telephone communications.

Investment

In the second quarter of 2002, the Fixed Gross Domestic Investment (IIBF) measured at constant prices showed once more a substantial y-o-y fall of 43%. This variation was due to very sharp decreases in investment in equipment (-50.9%) and in construction (-38.5%). The harsh depreciation of the peso determined a deep fall (-77.1%) in the incorporation of imported equipment, softened when referring to national equipment (-19.8%).



Notwithstanding the unfavorable context, the variation of seasonally adjusted IIBF compared to the previous quar-

ter was of only -0.6%.

Measured at current values, the investment in the second quarter was \$ 35,238 millions (10.6% of the GDP), the lowest value historically for this period of the year. The implied IIBF values show the impact of the peso depreciation, specially in the imported equipment sector, where the index (base 1993=100) arrived to 217.5. The most moderate growth was shown in construction, with an increase of 31.4% inter annual.

In July and August investment in construction continued very low, as from the results shown by indicators such as SICA [Synthetic Indicator of Construction Activity], which lowered 37.2% and 28.3% and the building permits decreased 49.4% and 48.4% respectively. The data of sales and production of some key supplies continued evidencing the recession of the activities. In the case of cement, the fall was of 23.5%. On the other hand, the Deeds of Conveyance entered in the City of Buenos Aires dropped again in July and August (-8% and -9%), after an important increase in April and May when given the flexibility to purchase property with locked up deposits it had an important increase. The Qualitative Construction Survey shows a similarly unfavorable perspective for September. Whereas 28.6% of companies dedicated to the construction of private buildings are not operating, this proportion reaches 36% among those working for public works. Both are pessimistic on the present level of activity of the sector. As regards personnel employed, reductions are also expected. In the environment of private construction, 52.3% of those surveyed expect a reduction in the workforce, whereas in the public works that estimation is shared by 30%.

Investment in locally made transport material is expected to be reduced once again in the third quarter due to the fall in automobile sales (-65%), and it may also be the case of imported equipment, since capital goods fell 73%, in current

dollars during July-August.

Labor market

According to the basic information provided by the companies tax returns to the Integrated System of Retirements and Pensions, the monthly average of declared jobs during the second quarter of 2002 reaches an inter annual negative variation of 11.2%. At the same time, the average monthly salary was 1.5% above the ones of the same quarter of 2001.

The goods-producing sectors declared jobs decreased 16.3% inter annual, while the average salary increased 8.2%. The service producing sector (that make up more than 70% of the jobs registered in the system) showed a decrease of 8.6% of the number of jobs declared. As regards the average salary, and opposed to what happened at the goods producing sector, the service producing sector suffered a drop of 1.1%, following the tendency started in the previous quarter.

On the other hand, according to the data from the Permanent Household Survey (EPH) made by the INDEC, in May of this year, the poverty incidence at homes and among the population was almost double to the previous measurement in October 2001. At the urban agglomerations of EPH more than 5,800,000 people lived in homes whose income did not reach the basic needs basket. As from that date 2,637,000 people were added to that figure.

The determining factors have been the price increase of food as from January this year and the increase of unemployment, with the consequent impact on family income, as well as the fall in the income of those employed. Finally and in a lower degree, the population growth. But these factors influenced in different ways according to the region, being Gran Buenos

Aires the region that evidenced a higher price variation, closely followed by the Pampa Region. It is worth mentioning the behavior shown in the Northwestern cities where the positive variation of prices and the negative of income have a relatively similar weight.

Prices

In the first semester of 2002, the crisis of the financial system, the capital flight and the deferral of public debt payment were the main factors that caused an abrupt rise of the nominal exchange rate. At the same time the price index started to grow, reflecting both the partial effect of the peso depreciation on the production costs as well as a substantial modification of the relative prices in favor of tradable goods (agro, mining and industry) against non tradable goods (services and construction).

As from June 2002 a certain stabilization started to be perceived that implied a change in the macroeconomic scene mentioned. Firstly, the nominal exchange rate stopped rising and stabilized at the high values it had reached at the end of May. The internal prices responded to this change and inflation monthly rates started to decrease, somehow explained by the economic context of high unemployment and fall of real salary. It is necessary to highlight that the effect of depreciation

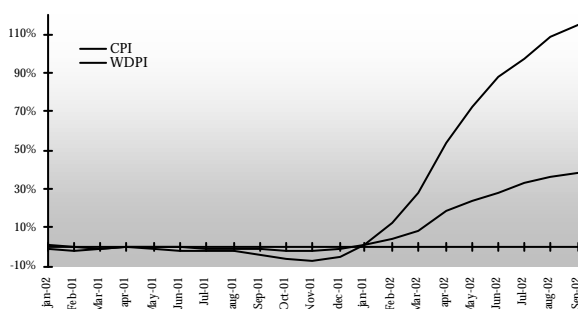
of the peso on the price index (specially retail) has been relatively low, contrary to previous forecasts of many economic analysts.

In the second quarter of 2002 all the indexes of domestic prices increased in annual terms. The implied prices of the gross domestic product (quarterly average) grew 34.1%, retail 28.4%, wholesale 87.9%, and those of construction 27%. The increases were fueled by a very high rise of the exchange rate, which evidenced a leap of 51% during the second quarter (after having risen 140% in the first), to end up in June with a nominal rise of 260% in only 6 months, magnitude only surpassed in hyperinflation periods. This made the real exchange rate improve a 130% annual in the second quarter.

On the other hand, in this period, the terms of foreign exchange scaled down 3.5% annually (although they evidenced a positive tendency compared to the first quarter) due to the effect of a strong reduction in the price of exports and a smaller reduction in the imports. The commodities prices went down 2% annually in the second quarter, even though they have recently recovered. There were some inter annual profits recorded for food (oils grew more than grains) and slight falls in the case of metals, while petroleum rose as from the third quarter. It is worth mentioning that most raw materials later reaffirmed their tendency to grow.

The increase of prices continued until August, but monthly inflation rates started to diminish in May. In August, the nominal exchange rate had risen 258% annually, therefore reducing the power of international purchase in 72% in just one semester. In said month, the retail prices accumulated an increase of 37% annually, and wholesalers 108%. Real exchange rate surpassed the levels of the previous 11 years and arrived even at the levels of the '80. Notwithstanding this, the indicator had an important reduction of 8% between June (when it got to its maximum level) and August, months when nominal

YoY Changes in Retail and Wholesale Price Indexes



parity stabilized while inflation continued to grow. It is worth mentioning that the period of Convertibility had been featured by an extremely low exchange rate in historic terms, but this depreciation of the peso has taken it to very high levels for Argentine experience.

External Sector

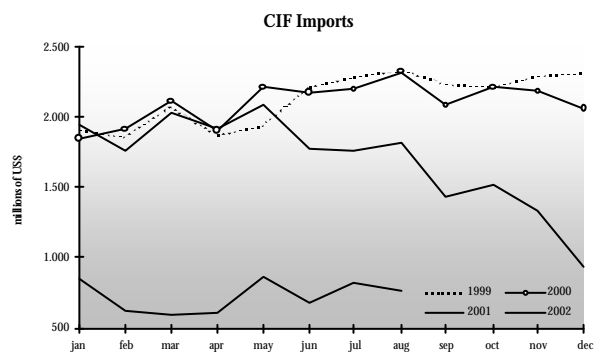
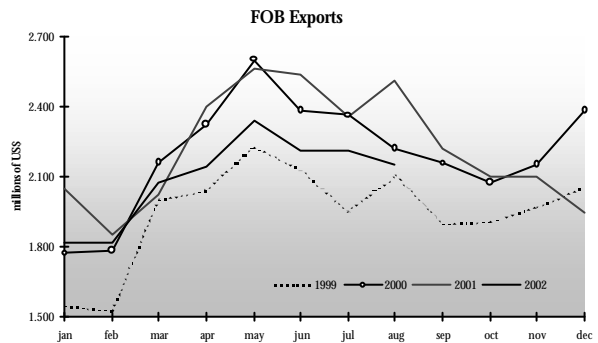
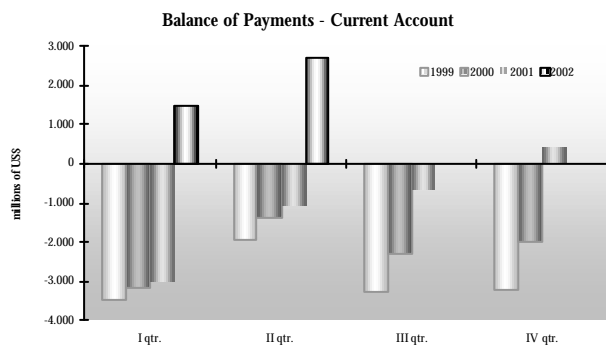
The strong trade surplus, the exceptional financing by delays and the fall of international reserves of the BCRA in the second quarter of 2002, the three of them of great importance, had as a counter face an important outflow of the financial account, i.e. a net outflow of capital that reduced the financing available for the economy.

Within this context, the current account registered this quarter a surplus of US\$ 2,705 millions compared to the deficit of US\$ 1,060 millions registered in the same quarter of the previous year. This adjustment of US\$ 3,765 millions in the quarter balance was due to an important reduction in goods and services imports, and to a lesser extent, to a fall of net expenses estimated in investment profits. The financial account registered this term outflows of US\$ 5,120 millions, the private non financial sector forming assets abroad (with no direct investment) estimated in US\$ 3,351 millions. The total delays as capital and interests in the period totaled US\$ 2,646 millions, and a fall of international reserves occurred of US\$

3,150 millions.

The goods accounts of the quarter gave a surplus of US\$ 4,670 millions, compared to the surplus of US\$ 2,045 millions of the same period in 2001. Its increase explained the 70% of the variation of the current account balance. The adjustment fell on imports, which were reduced 63%, result of a contraction of the 61% in the quantities and of 4.1% in the prices. The most affected sectors by the fall in imports were capital goods (-74%), consumption goods (-72%) and spare parts and parts of capital goods. (-66%). Imports of intermediate goods fell 53% and fuels 44%.

On the other hand, goods exports were reduced 10.6%, result of a fall of 7.5% in prices and of 3.4% in quantities.



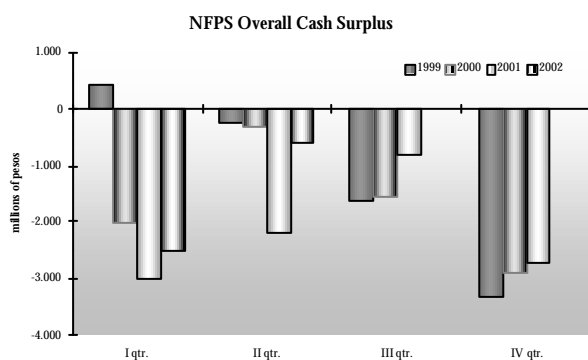
The balance of the financial account was mainly determined by the important net outflow of the private non financial capitals. The accumulation of foreign assets of the sector

was estimated in US\$ 3,554 millions (including investment), from the important surplus of the current account and the sale of reserves to the market by the BCRA. The decrease in the liabilities was of US\$ 1,199 millions and is the result of the cancellation of debt by a group of companies that is serving its financial liabilities and foreign trade bonds.

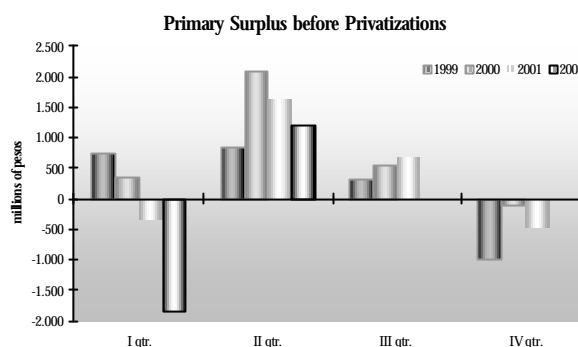
Public Finance

Fiscal accounts showed in the second quarter an important recovery. Tax collection was reduced 3.8% inter annually (i.e. compared to the same quarter of 2001) in nominal terms, contrasting with the falls of around 16% inter annual in the two previous quarters. The setting up of retentions to exports, together with the strong nominal depreciation of the exchange rate made taxes to foreign trade the main cause of better collecting results, contributing with \$ 1,064 millions more than in the same period of 2001.

During the two following months, i.e. July and August, this tendency was strengthened, since the contribution of foreign trade (more than other \$ 1,300 millions) has to be added to the other taxes that started to show positive annual variations. It must be pointed out that during the last months, taxes to foreign trade represent approximately 17% of total collection, whereas in 2001 they were only 4%.



The best performance of the income was reinforced by a strong contraction of nominal expenditure (around 15% of national public sector), but it is mainly due to the postponement of interest payments. Primary expenditure, on the other hand, was only reduced 4%.



A fact that somewhat taints the improvement in tax collection is the importance attained by the payment of taxes through the use of provincial quasi – currencies and national bonds. Although the quasi – currencies can be used by the Government as payment for an important number of transactions, the collection in bonds brought a considerable amount of problems, basically benefiting a small number of large businesses and, not so much, small and middle businesses linked to regional economies, as would have been optimal.

Because of this, with the intention of avoiding an imbalance in provincial accounts, a temporary suspension (90 days) in tax payments using bonds which carry such possibility in its conditions of issuance. In that period it is expected that a law will be formulated that establishes a means to rescue that debt without damaging the provinces' income.

Capital Markets

During the second quarter of 2002 continued the Argentine economic and financial crisis after the deferment of

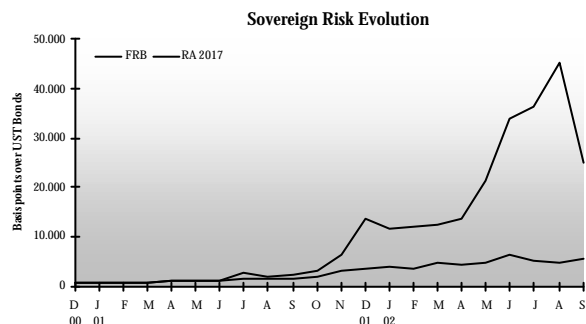
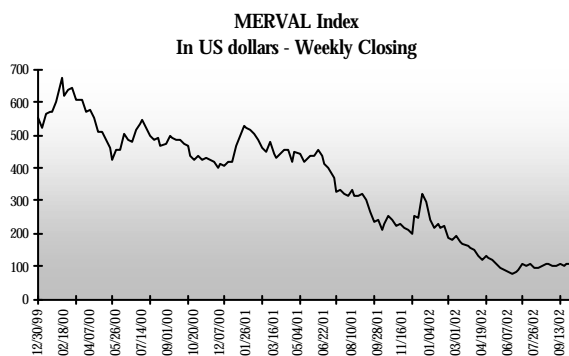
public debt payment and the abandonment of Peso convertibility at the beginning of the year. Therefore prices of financial assets continued to fall in this period. The value of shares stock that participate in the MERVAL index (expressed in dollars) reduced up to 110 points in average, with a loss of 46 % as regards the first quarter of 2002.

Only the value of some export companies could accompany the strong depreciation of the peso, whereas others, indebted abroad and selling services domestically suffered important devaluation. The main government bonds continued decreasing (Brady and Globales), and the sovereign implicit risk reached 5500 bp in average, approximately 23% higher than the previous quarter.

The restrictions imposed to bank movements originated a complex program of monetary re programming. Two voluntary swaps of Government issued bonds were implemented with short and long term bonds (BODEN), in pesos and dollars government guaranteed for those savers who did not want to choose the certificates of deposits with bank guarantee (CEDRO), to be collected in arrears as from 2003. In June the first voluntary swap of bonds BODEN was implemented (series 2005, 2007 y 2012), and in September the second with BODEN 2013, with additional guarantee of the banks. The latter had the option of choosing bank bonds to 10 year term in dollars, with complementing guarantee of the State up to the difference with dollar value. It was also necessary to deliver

bonds of the banks due to the asymmetric form in which the conversion of liabilities and assets originally denominated in dollars was carried out. It was also due to the exemption to the adjustment per inflation decreed for certain loans. The total of BODEN issued was almost US\$ 12,000 millions.

The negotiation with international credit organisms to refinance the public debt deadlines was extremely difficult, throughout most of the year. Within this frame the country had to pay net interests of more that US\$ 3.700 millions to said organisms up to September, and other deadlines were postponed. In the meantime, the Argentine peso had suffered an accumulated devaluation of more than 70% of its international price up to June, only comparable to the Russian ruble at the end of 1998. During the first weeks of June the domestic Stock Market had fallen until minimums of 80 points measured in US dollars. The JP Morgan index had increased to 7,000 bp, in this uncertain scenario.



As from July some changes were observed, similar to a turning point. Firstly, the nominal exchange rate was stable for more than three months. The value of Argentine peso surpassed the Brazilian real by the end of September due to Brazilian political uncertainty. Besides private deposits started to increase in August while interest rates entered a clear descending trend and the stock of banks rediscounts fell. Therefore the Central Bank played a key role by the issuing of short term

Central Bank Notes (LEBAC), which made possible a recovery of a reference interest rate in pesos. The domestic stock exchange showed a certain recovery and the Merval surpassed the 100 points (in dollars). The economic activity presented slight monthly increases in the industry and services while tax collection registered progressive increases.

International scene was characterized by contradictory signals from United States economy, that anticipated future scenario of stagnation or recession. The fall of American Stock Markets was deepened in September as a result of the lowering of benefits in high technology sectors, hindering consumption growth. The Federal Reserve in its meeting in September 2002 decided to keep short run interest rates at 1.75% annually, due to the down turn on stock markets and existing difficulties to reinitiate the growth. In the first months of the year became public bankruptcies and accounting frauds of big companies of electricity, auditing, telecommunications and investment banks. These facts fostered doubts on the transparency of account statements and American regulatory framework, deeply affecting investors confidence, who withdrew from the market provoking the fall in quotations. The falls were general all over the world (specially in Europe) and stock exchange indexes arrived to minimum values in the last five year period.

In Latin America, Argentine crisis and the difficult political and economic situation of Brazil provoked an increase in financial volatility all over MERCOSUR. Uruguay had been the most damaged up to June by a banking crisis and a strong international reserves loss. But in July the crisis impacted Brazil deeply where a strong depreciation of the real and the increase of sovereign risk reflected the political uncertainty facing next presidential elections. Both countries were helped by the IMF. The consequences were felt by the rest of Latin America, even in Chile and Mexico, whose currencies also depreciated while the economic activity slowed down. The economic growth slowed down in all Latin America, even

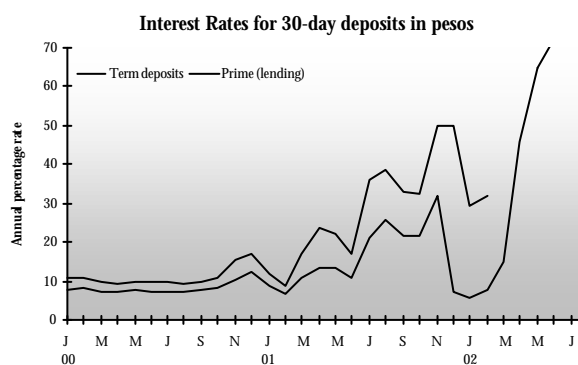
though in Argentina and Uruguay the recession was much stronger than in the rest of the region and was complicated by financial crisis. The last forecasts of the IMF indicated a smaller growth for world economy in 2002 and a dull outlook for Latin America.

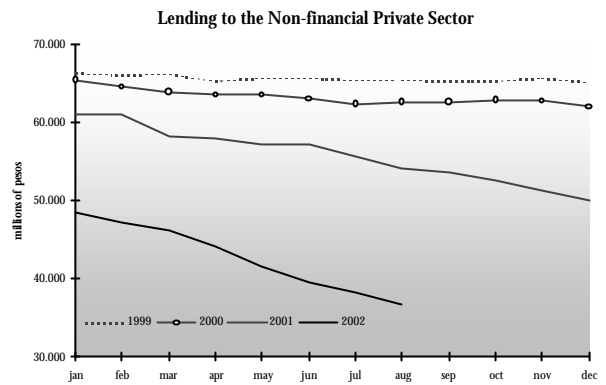
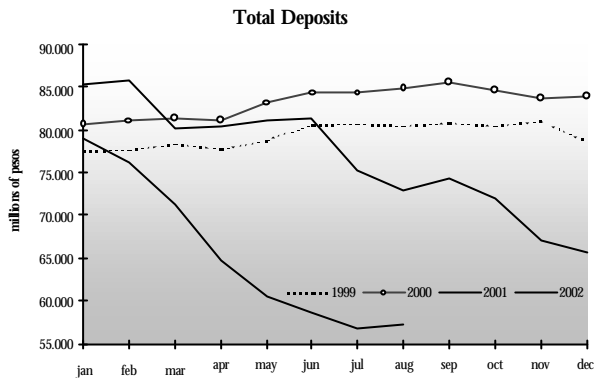
Money and Banking

During the second quarter of 2002, a negative performance of monetary variables was observed. But recent evolution is encouraging.

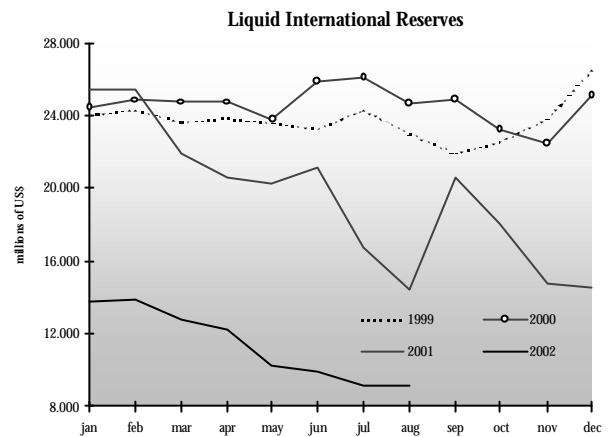
Even though real economic activity recovered as from the second quarter of the year, it was not until July when the reduction of deposits (“dripping”) slowed down. The evolution of the offer of pesos showed an important reduction in the aid of the Central Bank to entities, which was of only \$ 218 millions. This smaller aid resulted in an improvement in the evolution of deposits, in fact, private current account deposits went down only \$667 millions. In the meantime, the demand for pesos increased because of a lower fall in deposits and an increase in holders of notes and currency. At the same time the Central Bank absorbed with LEBAC around 300 million. Therefore, the BCRA became in July a taker in the currency market and was able to stabilize expectations about the exchange rate, which was 3.2% lower in July than in June.

In August, the positive tendency of July strengthened and





for the first time in 2002, total deposits grew (\$ 1,126 millions). This meant an increase in deposits in current account of banks in the BCRA, and an increase of the currency base demand, which reached \$ 763 millions. Due to the resulting improvement in liquidity of the banks, the aid of the BCRA to entities was of only \$ 208 millions, and the issuance of pesos reached \$252 million. Therefore there was an surplus in the demand of pesos that caused the BCRA to enter the market by buying currency. The reserves of the BCRA in August reached US\$ 359.7 millions, and at the end of the month US\$ 9,102 millions.



Selected Macroeconomic Indicators

I. Quarterly and Annual Indicators

	Source	Unit	II-01	III-01	IV-01	I-02	II-02	1999	2000	2001
National Accounts										
GDP	(1)	YoY % Chg.	-0.2	-4.9	-10.5	-16.3	-13.6	-3.4	-0.5	-4.4
Goods	(1)	YoY % Chg.	0.9	-5.1	-12.3	-19.4	-13.4	-5.4	-3.0	-5.2
Services	(1)	YoY % Chg.	-0.8	-5.0	-9.3	-13.3	-11.6	-1.5	0.5	-4.0
Private Consumption	(1)	YoY % Chg.	-2.1	-6.5	-12.3	-18.8	-16.7	-2.7	-0.4	-5.7
Public Consumption	(1)	YoY % Chg.	0.4	-2.1	-6.5	-7.5	-4.2	0.8	-0.4	-2.1
GDFI	(1)	YoY % Chg.	-6.2	-17.2	-28.6	-45.4	-43.0	-12.8	-8.6	-15.7
Construction	(1)	YoY % Chg.	-0.9	-8.8	-20.6	-40.1	-38.5	-12.1	-8.7	-9.4
Locally-manufactured Machinery and Equip.	(1)	YoY % Chg.	-18.9	-21.6	-29.5	-32.3	-19.8	-11.7	-9.0	-22.1
Imported Machinery and Equipment	(1)	YoY % Chg.	-9.7	-35.7	-50.8	-72.6	-77.1	-15.5	-7.9	-27.6
Exports of Goods and Real Services	(1)	YoY % Chg.	4.6	5.7	-0.4	5.6	-0.8	-1.4	2.0	2.7
Imports of Goods and Real Services	(1)	YoY % Chg.	-4.2	-17.9	-33.7	-57.4	-56.7	-11.7	-0.5	-13.9
External Sector										
Balance of Payments	(2)									
Current Account	(2)	in millions of US\$	-1.063	-750	-341	1.511		-11.945	-8.864	-4.429
Merchandise	(2)	in millions of US\$	2.045	2.337	2.591	3.750		-795	2.558	7.507
Real Services	(2)	in millions of US\$	-1.013	-980	-587	-687		-4.056	-4.288	-4.021
Financial Services	(2)	in millions of US\$	-2.134	-2.143	-1.718	-1.605		-7.473	-7.370	-8.095
Unilateral Transfers	(2)	in millions of US\$	39	36	55	53		379	235	180
Changes in International Reserves	(2)	in millions of US\$	-1.483	-89	-6.556	-2.133	-3.150	1.201	-439	-12.083
Exports of goods (FOB)	(3)	in millions of US\$	7.500	7.083	6.151	5.742	6.702	23.326	26.410	26.655
Imports of goods (CIF)	(3)	in millions of US\$	5.777	5.017	3.775	2.072	2.160	25.508	25.243	20.312
Trade balance	(3)	in millions of US\$	1.723	2.066	2.376	3.670	4.542	-2.182	1.167	6.343
Export price index	(3)	% Chg. in period	-4.9	2.0	-4.8	-3.5	-1.3	-11.2	10.2	-3.5
Import price index	(3)	% Chg. in period	-1.9	-2.9	-1.8	6.0	-5.1	-5.6	0.0	-2.9
Terms of trade index	(3)	% Chg. in period	-3.0	5.1	-3.0	-8.9	4.1	-5.9	10.2	-0.6
Public Finance										
NFPS overall surplus (incl. privatizations)	(4)	in millions of \$	-1.580	-802	-2.713	-2.519	-582	-4.769	-6.792	-8.110
Total tax revenue	(4)	in millions of \$	12.818	11.424	9.856	9.489	12.326	47.643	49.102	45.403
Public debt	(4)	in millions of \$	132.143	141.252	144.453	112.616		121.877	128.018	144.453
Money										
Bimonetary deposits	(5)	in millions of \$	81.447	72.001	65.601	71.945	60.156	78.662	83.913	63.059
Bimonetary M3	(5)	in millions of \$	92.363	81.291	74.598	84.150	75.005	92.383	96.470	74.598
Interest rates										
30-day deposits in \$	(5)	%	11.0	21.72	7.42	15.05	55.73	10.3	12.3	7.4
30-day prime loans in \$	(5)	%	16.8	32.62	n.d.	n.d.	n.d.	13.5	16.9	s.d.
Capital Market										
Merval (in US\$)	(6)	YoY % Chg.	-9.4	-39.3	21.3	-46.7	-41.5	28.4	-26.7	-29.3
Burcap (in US\$)	(6)	YoY % Chg.	-9.9	-22.7	48.3	-32.6	-25.7	26.9	-27.7	10.3
Discount strip	(6)	Basis points (*)	1.347	1.728	3.906	4.192	4.430	767	1.066	3.906
FRB	(6)	Basis points (*)	1.292	2.217	13.615	12.276	34.020	589	681	13.615

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

Sources: (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

Selected Macroeconomic Indicators

II. Monthly Indicators

Activity	Source	Unit	Dec-01	Jan-02	Feb-02	Mar-02	Apr-02	May-02	Jun-02	Jul-02	Aug-02
Monthly Industrial Estimator	(3)	Var.% 1 month (s.a.)	-3,1	-2,5	0,7	-2,3	-0,5	2,4	1,0	-1,5	2,7
		Var.% 12 months	-21,8	-20,1	-17,1	-22,5	-15,3	-14,8	-15,6	-11,4	-7,5
Investment											
Cement shipments	(7)	Var.% 12 months	-34,6	-39,0	-41,9	-32,4	-38,6	-31,9	-31,7	-29,9	-22,0
Import of capital goods CIF	(3)	Var.% 1 month	-5,6	-27,9	-39,0	-10,3	-24,1	142,4	-55,0	20,8	24,1
	(3)	Var.% 12 months	-60,3	-62,3	-73,4	-78,4	-83,6	-65,8	-80,2	-74,8	-71,7
Labor market											
Activity rate	(3)	%	-	-	-	-	-	41,8	-	-	-
Employment rate	(3)	%	-	-	-	-	-	32,8	-	-	-
Unemployment rate	(3)	%	-	-	-	-	-	21,5	-	-	-
Prices											
CPI	(3)	Var.% 1 month	-0,1	2,3	3,1	4,0	10,4	4,0	3,6	3,2	2,3
WVDPPI	(3)	Var.% 1 month	-0,2	6,7	11,3	13,1	19,9	12,3	8,5	4,6	5,3
WBDDPI	(3)	Var.% 1 month	-0,2	7,2	11,8	13,7	20,0	12,8	8,9	4,7	5,2
PBPI	(3)	Var.% 1 month	-0,2	6,9	9,9	14,3	19,3	12,7	9,5	5,4	5,3
CCI	(3)	Var.% 1 month	-0,2	2,7	5,5	4,3	6,5	4,3	2,8	4,0	2,6
Public Finance											
Revenues from DGI, ANA and SSS	(4)	\$ millions	2.819	3.411	3.001	3.077	2.884	4.827	4.615	4.987	4.731
VAT	(4)	\$ millions	825	1.009	1.027	1.036	899	1.511	1.403	1.413	1.364
Income tax	(4)	\$ millions	641	623	469	480	433	893	833	764	844
Social security revenues	(4)	\$ millions	434	749	595	528	528	709	656	915	702
Foreign trade	(4)	\$ millions	69	67	69	168	309	554	710	865	812
External sector											
Exports of goods (FOB)	(3)	US\$ millions	1.944	1.812	1.855	2.075	2.146	2.343	2.213	2.211	2.151
Imports of goods (CIF)	(3)	US\$ millions	931	853	627	592	611	862	687	813	764
Balance of trade in goods	(3)	US\$ millions	1.013	959	1.228	1.483	1.535	1.481	1.526	1.398	1.387
Liquid BCRA reserves	(5)	US\$ millions	14.551	13.947	13.871	12.780	12.171	10.185	9.629	8.986	9.102
Nominal exchange rate	(5)	\$/US\$	1,00	1,40 (**)	2,15	2,90	2,95	3,60	3,80	3,68	3,62
Money											
Bimonetary deposits (#)	(5)	\$ millions	65.601	78.929	76.110	71.304	64.674	60.408	58.587	56.846	57.327
Bimonetary M3 (#)	(5)	\$ millions	74.692	88.281	85.400	83.504	77.831	73.809	71.620	70.294	70.593
Rates of interest											
Deposits in \$ at 30 days	(5)	%	7,4	5,53	7,75	15,00	45,88	64,54	71,88	76,47	65,52
Prime loans in \$ at 30 days (##)	(5)	%	n.d.	29,53	31,92	-	-	-	-	-	-
Capital market											
Merval	(6)	% chg. in period	46,0	-24,1	-14,6	-17,8	-15,1	-33,7	3,8	4,7	7,4
Burcap	(6)	% chg. in period	50,2	-29,1	-3,1	-1,9	-14,4	-14,3	1,3	0,2	3,8
Discount strip	(6)	Basis points (*)	3.906	3.944	3.663	4.192	3.662	4.268	4.430	5.284	7.748
FRB	(6)	Basis points (*)	13.615	11.605	12.066	12.276	13.843	21.548	34.020	36.603	45.328

(*) Spread on US Treasury bonds - month-end data.

(**) 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 = US\$ 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=US\$1. 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

(7) Association of Portland Cement Manufactures