

# The Argentine Economy during the Third Quarter of 2002 and its Recent Evolution<sup>(\*)</sup>

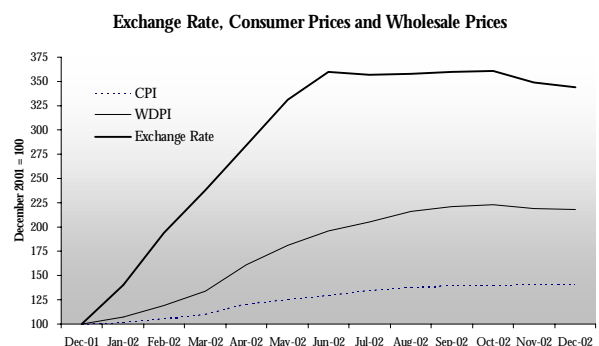
The last financial year just finished will probably be remembered by the deep fall in activity, high unemployment, extremely high levels of poverty and indigence and the strong depreciation of the peso. These indicators by themselves express a crude reality that the population has been through with a painful way out as well. But the Argentine economy closed the year opposite to the way it started it and, therefore, the perspectives for the new period are more encouraging.

A first 2002 balance shows that after the peso depreciation at the beginning of the year the economic activity underwent a collapse in the first quarter of the year. Even though Argentine economy had entered a long recession since the Russian crisis in 1998, as from mid 2001 the markets had started to predict the end of the exchange regime (the convertibility of the peso). In only three quarters, between the second quarter of 2001 and the first quarter of 2002, the GDP fell by more than 15%. The fall extended throughout the first quarter of 2002, after the depreciation of the peso and the postponement of foreign payment defined at the beginning of the year. It can be said that in the first quarter of the year the collapse reached all economic variables.

One of the few positive aspects that can be mentioned in this period was the low translation of the exchange rate depreciation to domestic prices (pass-through). The relatively moderate domestic inflation was due to the fact that in a frame of strong depression and high unemployment the significative issuing of

currency aimed at helping financial entities was sterilized by the sale of international reserves of the Central Bank. The freezing of privatized utilities prices and the non-repetition of indexation practices of the 80's, probably due to a social awareness of stability, were the reasons why depreciation did not impact strongly on prices. This is considered the main reason for slowing down an economic and social situation which had threatened to get even worse.

The monetary imbalances continued through the second quarter of 2002. The excess of supply over monetary demand was determined by the growing aid to financial entities (national treasure assistance was controlled) which was not compensated by rises in base demand (both circulation and banking reserves diminished). This excess of supply had to be sterilized by a strong exchange intervention (the incipient Lebac market could not absorb such an issuance). In the meantime, and contrary to



*\* This document is a summary in English language of the main subjects published in the "Informe Económico N° 43". The complete Spanish version is available at <http://www.mecon.gov.ar/informe/informe43/indice.htm>.*

most forecasts, the real activity stopped falling. The already mentioned low pass-through started to outline a new structure of prices relative to good-producing and service-producing sectors. Contrasting the depreciations of the eighties and in spite of the turbulences, the low pass-through made it possible that even in the worse moments some fundamental relative prices were maintained. The low translation and subsequent change of relative prices helped not only to stop the fall of GDP, starting an important process of import substitutions but also to stop the deep deterioration of the social situation of an important part of the population, if considering the high permeability of the indicators of indigence and poverty to changes in the value of basic basket packages (food and total).

The level of activity in the third quarter of the year confirmed the end of the fall started in the second one. Actually, in the third quarter the seasonally adjusted GDP evidenced a rise of 0.2%, compared to the previous quarter. Non-seasonally adjusted GDP showed a fall of 10.5% as regards the same quarter of 2001 (lower than the y-o-y fall of 14.7% of the second quarter).

The prices, both retail and wholesale, started to stabilize. As already mentioned, the main reason for this favorable behavior of domestic prices was an absence of price and salary indexation mechanisms, deactivated at the early 90's. But it was also due to the stability that evidenced the exchange rate due to a tidy handling of the monetary policy, consistent with a cautious fiscal policy. As from the third quarter, for the first time in the year, the base monetary imbalances evidenced by an important financial aid of the BCRA to financial entities and the loss of international reserves started to disappear. It is well known that unlike during the convertibility period, with the new exchange and monetary scheme it is essential to evaluate the monetary demand to establish the adequate levels of supply. As inflationary fears faded away and the fall of activity stopped, deposits were slowly returning and the domestic currency demand grew.

At first, encouraged by the recovery of banking reserves (currency circulation could not yet be recovered). In this way, the excess of base supply reverted and the BCRA intervened by selling international reserves at the exchange market, and as from July that institution started to recover reserves while maintaining exchange stability.

Another aspect to be considered was that in the third quarter of the year the fiscal accounts steadily improved, because of a better nominal tax collection and the maintenance of expenditures in nominal values, implying an important reduction in real terms. In fact it is worth mentioning that the improvement in fiscal accounts started in April, when the economic activity reached its bottom line. As from then, a substantial recovery in tax collection has been undergoing, as a result of inflation and export taxes. Of course, this primary surplus was also related to the non increase of primary expenditure, as already mentioned.

On the other hand, the foreign sector continued reflecting the strong adjustment of the economy. The new situation generated by the abandonment of convertibility is still significantly echoing on the balance of payments as a whole, but specially on the merchandise account and the formation of assets abroad. In fact, the trade surplus was of US\$ 12,856 million in the first nine months of 2002 (as opposed to US\$ 4,860 million in the same period of 2001), resulting from a fall in exports that was much less than that one of imports (-10.6% and -62.6%, respectively). The main reason for the fall in exports was the effect of prices (-7.3%), since the evolution of quantities was very similar (-0.1%).

Did the situation change in the last quarter of the year as opposed to what was happening since the second one? Yes it did. The partial information available at the edition of this Economic Report makes it possible to confirm that in the last quarter of 2002 the improvement in the economic activity has not only continued but it has accelerated. Last quarter seasonally

adjusted GDP evidences a growth as regards the third one, even though more significant this time (about 2% growth). The Monthly Industrial Estimator published by INDEC shows new growths during the last three months of 2002, evidencing an accumulated evolution as from last April (series bottom line) already in the 10%.

As regards prices, Argentina's economy showed again inflation indexes below 1% monthly and even in November and December wholesale price index deflated (-1.7% and -0.3%, respectively). The consumer price index showed a monthly average of 6% in the second quarter, another 2.3% in the third, and an average of 0.9% in the fourth.

Exchange rate and prices stability and the recovery of activity levels in the last part of the year reaffirm the tendency in the financial market. In fact, between late July and December, private sector deposits incremented by \$ 3,075 million, i.e. 5.5%. The growth of transaction-linked deposits in pesos, encouraged by the high interest rates of the period, enabled entities to recompose their liquidity reserves. Central Bank rediscounts reduced, making the variation of Net Domestic Assets (NDA) negative for the first time of the year, since the Central Bank actively continued its monetary absorption by Central Bank Notes (LEBAC). It is worth mentioning that LEBAC were aimed at lowering interest rates and extending the terms of the documents. As a reference, the Notes in pesos to 14 days were last placed in November at 4% annual. The cost of Notes for 28 days was at an average of 73% annual in August, and in November and December was reduced to averages of 8.4% and 6.8%, respectively. Bids for longer term documents (90, 120, 180 and lately to 270 days) started, always at decreasing rates.

A difference worth mentioning at this last quarter of 2002 compared to the previous is connected with the evolution of the composition of the monetary base. In this last part of the

year, monetary base demand incremented not only by the increase of banking reserves, as already mentioned, but also by the demand of circulation, linked to the sensible improvement in real activity and price stability of the period. This last factor had been falling because of the gradual loosening of the restrictions initially set in the financial system, which had determined a high liquidity premium. Monetary circulation thus reached its minimum in September, when it started to genuinely recover with the gradual restoration of the chain of payments. In this way, the excess of monetary base demand became higher, and the BCRA intervened recovering international reserves. From July to December 2002 the BCRA bought from the private sector a total of US\$ 2,393 million. Even though the monthly average is lower than US\$ 400 million, in the last three months it has got closer to US\$ 500 million.

Tax collection from April to December increased by 20% y-o-y (i.e., against same period of 2001). Export taxes, together with a strong nominal depreciation of exchange rate made foreign trade taxes the main cause of improved tax collection, accounting for \$ 4,830 million more than in the same period of 2001. Throughout the last months, total taxes to foreign trade accounted for 15% of total collection, while in 2001 they were only 4%.

The higher income was reinforced by an important contraction of nominal expenditure (in the first nine months of 2002 the fall was about 7.5% in the national public sector), but most of it results from deferrals in interest payments. Even though nominal primary expenditures only reduced by 1.7%, a strong reduction in real terms took place (-19%), when considering the effects of retail inflation and even more when the deflator is the combination of wholesale and retail price indexes (-30%).

Finally, it is worth mentioning that in 2002 Argentina was net payer to international institutions in about US\$ 4,130 million,

as opposed to what happened in the last years. In fact, from 1993 to 2001 Argentina was only a net receiver with an annual average of US\$ 1.900 million.

Even in this unfavorable foreign financial context Argentina managed, in the last quarters, to start leaving the depressive context it was dragging since 1998, based on a careful managing of macroeconomic policy: a prudent fiscal policy and a balanced monetary policy aimed at consolidating the incipient recovery without forgetting the social objective of price stability. The Government has just removed the last restrictions to deposit availability. It has also diminished the rate of Value Added Tax during December (from 21% to 19%) to strengthen the recovery. Everything aims at trying to regenerate purchase and investment power and release the potential of the economy.

Next, as is traditional in this Chapter, a summary of the specific chapters of this Economic Report is offered<sup>1</sup>.

*Economic activity*

The macroeconomic development in the third quarter of 2002 determined, according to provisional estimates, a negative variation of 14.1% in the global supply at constant prices compared to the same period of the previous year. This decrease was the result of a fall of 10.1% of the Gross Domestic Product, and 50% in the imports of goods and services. Regarding the

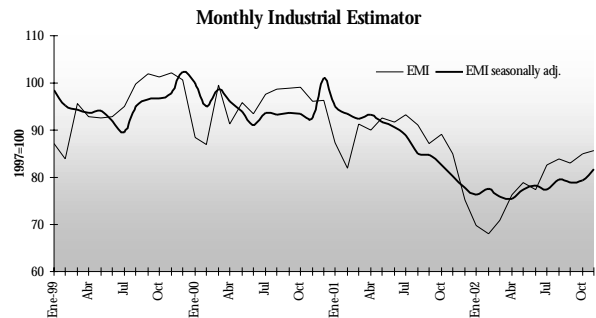
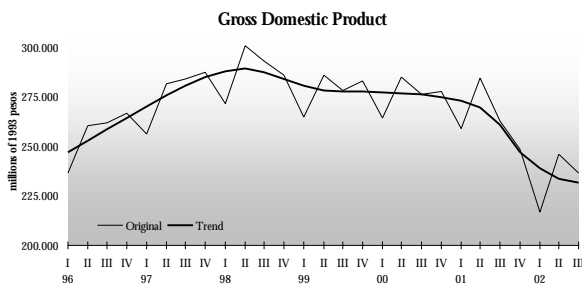
global demand, there was a negative variation of 37.5% in the gross domestic investment, and an increase of 2.7% in the exports of goods and services. The decrease of private consumption was 13.1%, while public consumption showed a decrease of 6.8%.

The good-producing sectors experienced a negative variation of 10.8% determined basically by the decrease of the level of activity in the manufacturing industry (-7.2%) and construction (-36.4%). The service-producing sectors registered an year-over-year decrease of 8.1%.

The variation of the seasonally adjusted GDP of the third quarter of 2002 compared to the previous one shows an increase of 0.2%.

The evolution of the general level of prices, measured by the Implied Prices Index in the Value Added (GDP deflector) in the third quarter of 2002, experienced an increase of 36.8% 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 93.8% and the service-producing sectors 10.2% y-o-y.

The Monthly Industrial Estimator (EMI) fell in October by 4.5% but recovered in November. After 27 months of y-o-y falls it registered a rise of 0.9% and a variation of 3% compared to the previous month. As regards different sectors, there was a



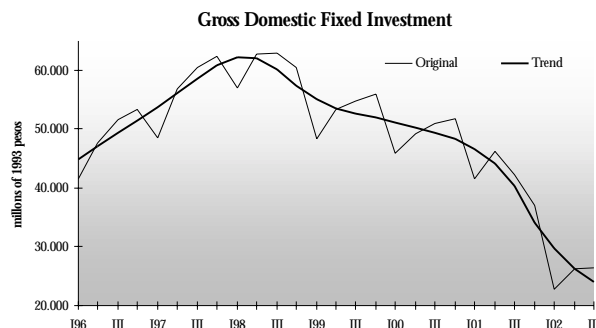
<sup>1</sup> A complete version of the Chapters can be obtained at <http://www.mecon.gov.ar/informe/informe43/indice.htm>, Spanish version only.

considerable increase in the production of glass (51.8%), metalmech industry (42.6%), textile (42.3%) and cotton textiles (35.9%). On the other hand, the activity in editorial products and printing (-23.2%), soap, detergents and personal products (-18.9%), white meat (-18.6%), dairy products (-18.2%) and cement (-17.5%) decreased.

The Utilities Indicator continued falling during October (-6.2%) and November (-4.7%). Even though the fall registered were less abrupt than the one suffered by the good-producing sectors in the previous months, it is expected that this will remain longer because of the peso depreciation, since it is almost completely bound to domestic demand, whose purchasing power has diminished. The variation of the series compared to the previous month presents a slight positive variation (0.2%) in November. Following the evolution of exports, cargo transportation has been one of the most dynamic sectors as well as international air cargo (15.9%), rail cargo (15%) and interurban passengers rail transportation (22.7%) Public transport and telephone communications, on the other hand were the most affected areas.

### *Investment*

In the third quarter of 2002, the Fixed Gross Domestic Investment measured at constant prices showed once more a substantial y-o-y fall of 37.5%. This variation was due to very sharp decreases in investment in equipment (-46.6%) and in construction (-32.7%). The strong depreciation of the peso, the price of imported goods (which increased more than 223.5% y-o-y) as well as the reduction of the available income and the idle capacity of important productive sectors kept low the incorporation of imported capital goods (-70.8%) and national equipment (-21.5%). It was also negative the variation of the IIBF compared to the previous quarter (-5.2%) as well as the soft-



ned variation (-8.6%).

Measured at current values, the investment in the third quarter was \$ 39,264 million (11.8% of the GDP).

Recent indicators on construction still reflect a recessive tendency for the area, but somehow softened, as in the case of Synthetic Indicator of Construction Activity (SICA), which in October and November fell 12.4% and 9.1% respectively. In the same period, sales of cement reduced 11.7% and 22.3% and building permits lowered 7.8% and 27.5%. When considering SICA breakdown a higher decrease of road works is evidenced in November (-31.3%) and a slighter one in the private construction of buildings (-1.7%). The Deeds of Conveyance entered in the Property Registry, on the other hand, grew 23.8% and 8.4% in October and November respectively.

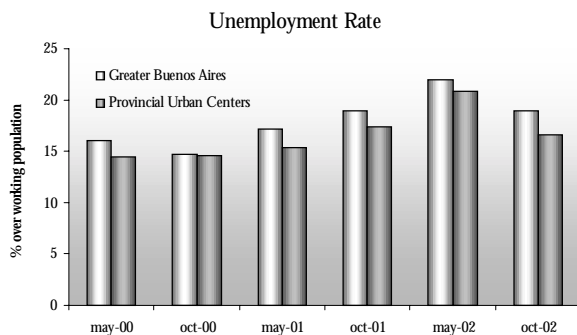
For December the perspectives (of the Qualitative Construction Survey) are still unfavorable. In the private sector 31.6% of companies surveyed and 10.6% of those engaged in public works predicted a diminishing of the level of activity.

Falls in domestic sales of domestically manufactured automobiles were deeper in October (-56.9%) than in November (-41.1%), as opposed to what happened with capital good imports. The purchases of these goods fell 44.4% in the first month and 54.6% in the second.

*Labor Market*

The data from the Permanent Household Survey (EPH) carried out in October 2002 in 31 cities (previously it was carried out at 28) reveals that the average unemployment rate for the whole of the cities covered by the EPH was at 17.8%, slightly lower than the 18.3% of last year October. As regards May 2002, on the other hand, unemployment was quite lower since in that moment was of a record 21.5%.

This last reduction was mainly due to the rise in the employ-



ment rate of two percentage points going from 32.8% in May 2002 to 35.5% in October. The rise in the rate of activity of last October, of one percentage point as regards May 2002 and 0.7 points from October 2001, prevented a higher fall of the unemployment rate.

The y-o-y reduction of unemployment was practically based in the cities of the interior of the country, where it went down from 17.4% to 16.6% in October of each year, in contrast with what happened in Greater Buenos Aires, where it practically remained the same.

In absolute figures, the October 2002 EPH estimated an increase of employed population of about 426,000 people (3.7%) compared to October 2001 and a much higher 859,999 people (7.8%) as regards May 2002.

As from 2002 INDEC started to make up a monthly Salary Index. According to this new indicator, the general level of nominal salaries grew almost 6.6% annually up to October 2002 as regards the base period (the last quarter of 2001) mainly due to the effect of the increase of Arg\$ 100 established by Decree 1,273/02 in force as of July 2002. The increase in the private sector (15.3% y-o-y) contrasted with the very slight evolution of public sector salary (0.6%) and the decrease of 6.3% in the non recorded private sector.

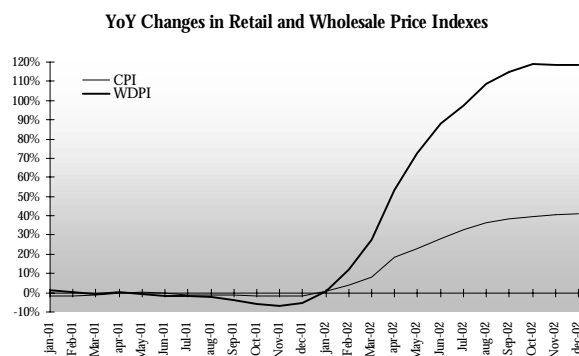
According to the basic information provided by the companies to the Integrated System of Retirements and Pensions, the monthly average of declared jobs during the third quarter of 2002 reaches 4,261,129 jobs, which means a decrease of 9.5% compared to same period of last year, in its sixth quarter of consecutive fall. The average monthly salary was \$ 923 for the quarter, that is, 9.2% higher than the third quarter of 2001 average.

*Prices*

In the second half of 2002 the effects of abandoning convertibility and of the financial system crisis started to be overcome. During the first six months, these factors had caused a high flight of capitals and a rise of the nominal exchange. At the same time inflation slowed down and indexes reflected more clearly the very important modification of relative prices in favor of tradable ones. This is one of the characteristics of the new macroeconomic context, very different from last decade when the real exchange rate (a key element for the allocation of resources and the decisions on consumption and investment) more than doubled its average level from 1991-2001.

Last June the nominal exchange rate stopped increasing and stabilized at a historically high level, which was maintained with slight changes up to the end of the year, when a nominal

appreciation of the peso started. The main reason was that the capital flight diminished (very high during the first six months of 2002) as a consequence of the fiscal and monetary restrictive policy and the magnitude of the exchange depreciation itself. Domestic prices responded to this change and monthly interest



rates descended rapidly, partially due to the economic situation of high unemployment and fall of real wages. It is outstanding that the exchange rate pass-through on retail indexes has been low, against many analysts' predictions in the first half of the year.

During the third quarter of 2002 the implied prices of GDP rose by 36.8% in annual terms. In the same period and in quarterly averages (so as to compare them with GDP implied prices) retail prices increased 36% annually, wholesale 106.9% and construction 36.5%. Thus, the combined prices rose 68.3% annually in the third quarter, meaning increases not registered since 1990. But during the third quarter, the rise of combined prices stopped suddenly: only 9.9% against 32.1% of the previous quarter. This tendency continued throughout the last quarter of the year. This slowing down was explained by the previous stabilization of nominal exchange rate, which was practically steady in the July-September period. This made the real exchange rate fall slightly throughout the third quarter (close to a deflated 9% of combined prices).

The terms of trade went back 3.4% annual in the third quarter of 2002 (although confirming a positive tendency and even increasing compared to the second one) because the reduction in the export prices was higher than the reduction of import prices. On the opposite, the average commodity prices in the world market rose about 6% annual in the third quarter, recovering from the fall in the first half of the year. There were strong y-o-y gains for grain and oil, but no defined tendency for metals and other raw materials. Oil started to rise in annual terms, sustaining the rise in the following months because of the situation in Irak and Venezuela. It is worth mentioning the fact that export manufactures from industrialized countries accompanied the recovery of commodities, sustaining later the rising tendency.

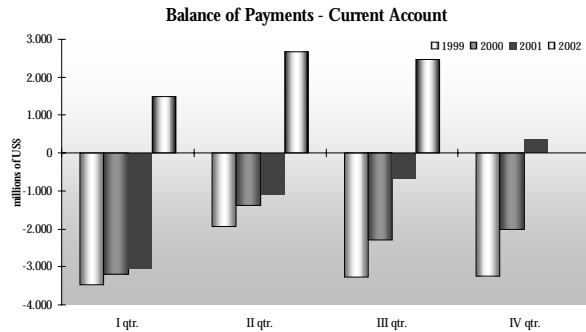
The slowing down of retail and wholesale inflation continued up to November, within a more relaxed economic and financial scene. In November, the nominal exchange rate had risen 249% annual, thus reducing the peso international purchasing power by 71% in the year, depreciation only comparable to those of the Russian ruble or the Indonesian rupiah five years ago. In that month, retail prices accumulated an increase of 40.6% annual, wholesale 118.3% (with a slight decrease in November) and the combined prices 75.9%. Thus the real exchange rate was much higher than the one of 11 years of convertibility regime, and even surpassed the average levels of the 80's. But it is also worth mentioning its recent reduction, 13% from its top in June and December, what is known as overshooting.

### *External Sector*

During the third quarter of 2002 the current account estimate of the balance of payments registered a surplus of US\$ 2,482 million, while the capital and financial account balance registered an outflow of US\$ 2,023 million mainly due to non finan-

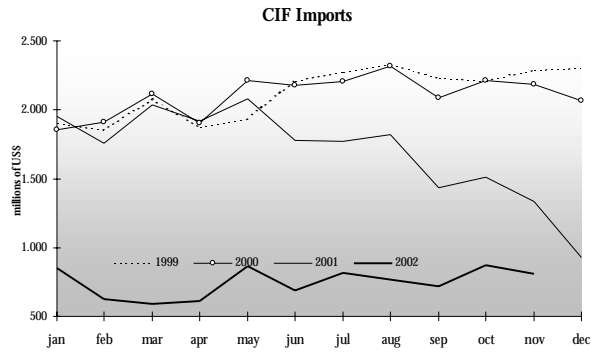
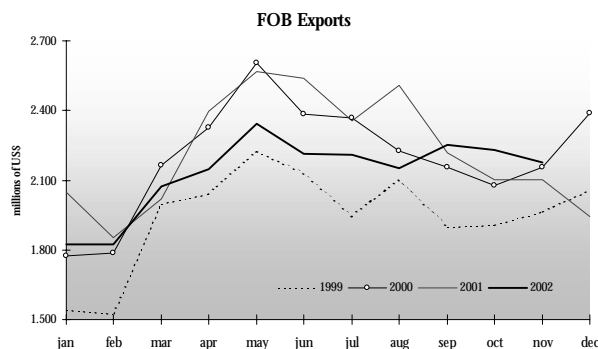
cial private sector flows.

In the first nine months of 2002, the current account surplus amounted to US\$ 6,657 million compared to a deficit of US\$ 4,810 million of the same period last year. The surplus of the goods account gave a surplus of US\$ 12,856 million, much higher than the US\$ 4,860 million of the same period in 2001.



The financial account registered a net income of US\$ 10,565 million, out of which US\$ 7,700 million were financial assets abroad net of direct investment. During the first nine months of 2001, on the opposite, that account had registered a surplus of US\$ 1,246 million.

International reserves fell by US\$ 5,509 million, amount similar to the fall registered in 2001, but in the third quarter of 2002 the fall was of only US\$ 226 million. It is also important to mention the slowing down of the net capital outflow in said quarter (with a significative reduction of the formation of assets abroad) compared to the two previous quarters.



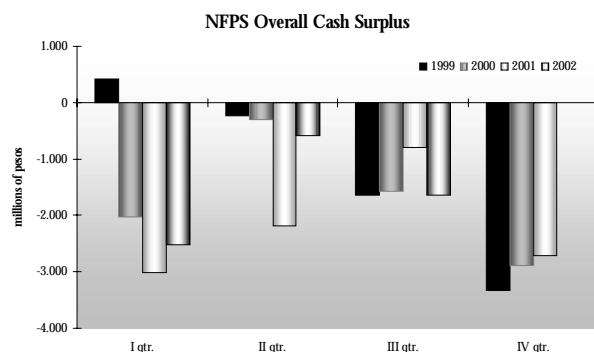
The surplus of the merchandise account, both in the third quarter and the first nine months of the year, was basically explained by the dramatic fall of imports compared to the same periods of last year, when they got to 60%. On the other hand, exports registered falls of 6.4% in the third quarter and of 7.2% in the first nine months of the year, always compared to the same periods of 2001. Export falls are basically explained by the fall of prices, since the quantities were practically similar.

As regards the financial account, in the third quarter the arrears amounted to US\$ 825 million, out of which US\$ 679 million are from the public area and US\$ 145 million from the non financial private area. Thus, the first nine months accumulated arrears for US\$ 3,195 million, out of which US\$ 2,721 million are from the non financial public sector and US\$ 461 million from the non financial private sector. The total of arrears (capital plus interests) estimated for the first nine months of the year amounts to US\$ 7,688 million. The banking sector registered no significant arrears.

*Public Finance*

In the third quarter of 2002 the global result of the Non-Financial National Public Sector (SPNPF) cash based registered a deficit of \$ 1,635.6 million. As regards the same quarter of 2001 the deficit was incremented in \$ 833.8 million, mainly

due to an increase in income which did not compensate the rise in expenditure. On the other hand, the primary surplus (i.e.



excluding the payment of public debt interests) minus privatizations resources is well above the one registered in the third quarter of last year in \$ 371.8 million, mainly due to the growth of current income as a consequence of higher tax income favored by the profit in foreign trade taxes.

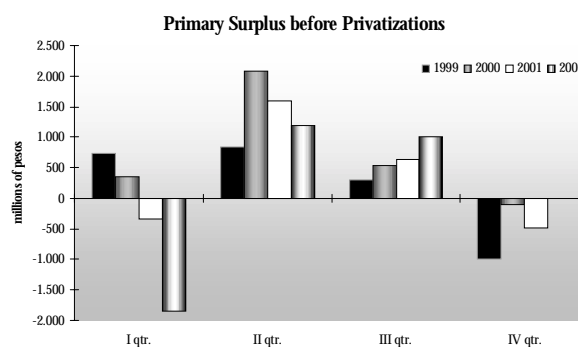
At each month of the third quarter the areas of higher contribution to the deterioration of the global result are those of the payment of public debt interest and the Transferences to Private Sector. The first registered a y-o-y increment of \$ 1,152.3 million (77.4%) in the whole quarter, while the Transferences to Private Sector were of \$ 1,157.7 million (85.3%) over the amount of year 2001, mainly due to the program “Jefas and Jefes de Hogar” [Heads of Households]. Both account for 90% of the total increase in public expenditure.

Current income increased by 13.2% in the quarter, thus reverting a tendency of six consecutive periods of fall. They reached \$ 14,898.4 million, \$ 1,741.3 million above the amount recorded in the same quarter of 2001. This difference is explained by the behavior of taxation resources which grew in \$ 1,291.7 million (13.7%), followed in a lesser extent by Social Security contributions, property rentals and non taxable income. The increase in taxation income, which represents 74% of the current income of the quarter, was consequence of the growth

of export taxes and the increases in VAT, Banking Credits and Debits and Fuel and Gas Taxes.

The increase of \$ 2,564.6 million in current expenditures in the third quarter of 2002 compared to same period in 2001 was a consequence of the significant increment in the areas of Debt interest payment and in the Transferences to the Public Sector, as already mentioned. The increase of \$ 1,152.3 million (77.3%) in the payment of foreign debt interest was a consequence of the exchange rate variation, the Services operated with IMF and BIRF, and payments of interests of BODEN and Par Bonds in September. The increment of Current Transferences, which account for 40% of the total Current Expenditures reached \$ 997.5 million, and was mainly composed by a higher expenditure for Transferences to the Private Sector (other \$ 1,157.7 million) as a consequence of the “Programa Jefes de Hogar” [Heads of Household Program].

Thus the primary expenditure (concept that excludes the payment of public debt interests) was incremented in \$ 1,336.8 million (10.6%) compared to the same quarter of 2001, breaking the tendency of the last quarters. At this point it is of significant



importance to point out that, since the price level has had an increment of 67% combining the retail and wholesale segment, the evolution in real terms of primary expenditure evidences a fall of 34%, underlining the considerable effort of the Government to preserve the Public Expenditure from inflation effects.

*Capital Market*

In the second half of 2002 the effects of the economic and financial crisis of the end of 2001 started to be overcome. As a consequence, during this period, the prices of financial assets started to recover from the minimum values they had reached at the end of the year. In the third quarter the value of shares included in MERVAL (expressed in dollars) increased from 92 average points in June to 108 points in September, with a slow increase of 17%. The increase extended not only to exported-oriented companies but also to others which trade in the domestic markets and even to banks, since deposits started to increase in August.

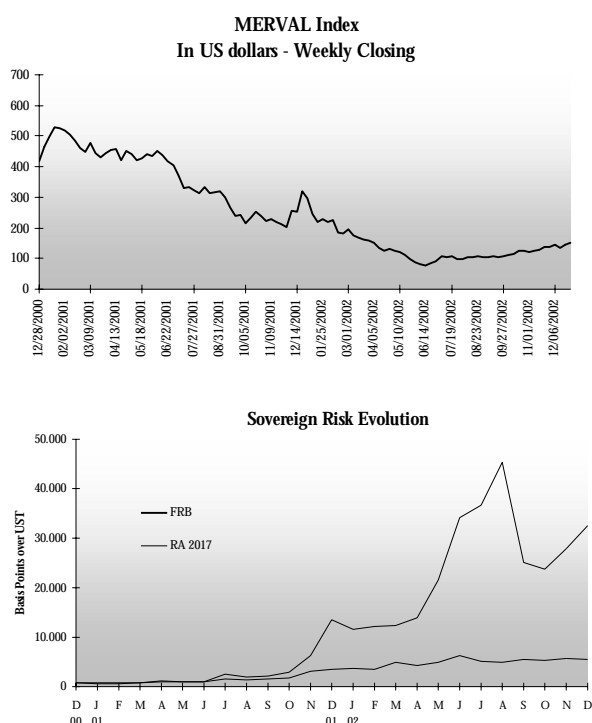
In the period July-September 2002 the main government bonds continued to retreat as the lack of definition on the agreement with international credit institutions continued. That is the reason why the implied sovereign risk of their prices increased to an average of 6,650 basis points, a 22% above the already-high average of the previous quarter.

In September, the second phase of the swap of deposits into bonds was implemented, this time including BODEN 2013 with additional guarantee of the banks. It was also offered the option to choose bank notes to 10 year-term in pesos, with an extra guarantee of the State up to the quoting difference with a future dollar. It was also necessary to issue long term bonds given to the banks, due to the asymmetrical conversion of assets and liabilities into dollars as regards those in pesos.

On the other hand, the negotiation with international credit institutions to refinance due public debts payments turned out really difficult by the end of the year. In this framework, the country had to make an effort to pay net interests for more than US\$ 4,000 million to those institutions up to December 2002, even though some deadlines were postponed.

The international context was characterized by signals of stagnation in the United States' economy. The fall of American stock exchanges was deepening in August, as a consequence of the lower benefits in high technology companies, and the stop in consumption. The American Federal Reserve decided, in its meeting of November 2002 to increase the reduction of the short term rate, setting it to 1.25% annual (lowest levels of the last decades) in order to promote growth. Throughout the year, the great number of bankruptcies and accounting frauds of big companies deeply affected investors confidence. The American stock exchange thus finished its third consecutive year of fall, what had not happened since Second World War.

In Latin America, Argentina's crisis and the difficult political and economic situation of Brazil provoked an increase in financial volatility all over MERCOSUR. Uruguay was the most damaged by a banking crisis and a strong international reserves loss. But as from August the crisis impacted Brazil deeply when a strong deprecia-



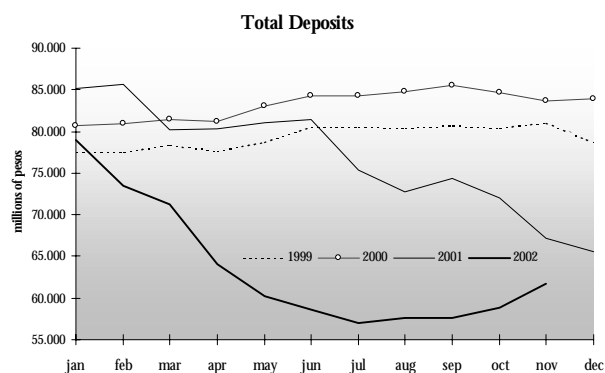
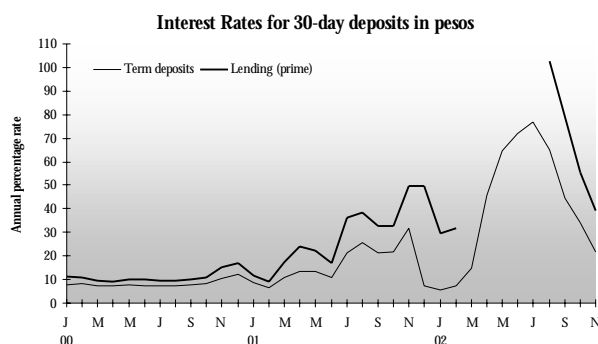
tion of the real and the increase of sovereign risk reflected the political uncertainty facing presidential elections in last October. Both countries had to be financially aided by the IMF. The consequences of this crisis were felt by the rest of Latin America, slowing down the economic growth in all the region. The recession was much stronger in Argentina and Uruguay than in the rest of the region and was complicated by financial crisis.

In Europe, the economic activity slowed down, but the currency tended to strengthen as regards the increasing weakness of United States, specially at the end of last year when the Euro was stronger than the dollar. At the closing of this Chapter, the American, Japanese and European stock exchanges continued at the lowest levels of the last five years, while the IMF forecasts showed a slow growth recovery for the global economy in 2003.

### *Money and banking*

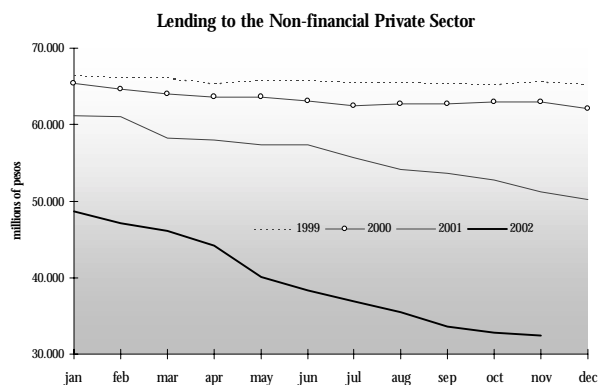
During the third quarter of 2002 started the reversion of the negative performance of monetary imbalances caused by the abandonment of the convertibility regime, asymmetric pesoification and the deepening of locked up deposits (“corralito”).

In July the dripping of deposits stopped and, for the first time in the year, there was an increase in the demand of



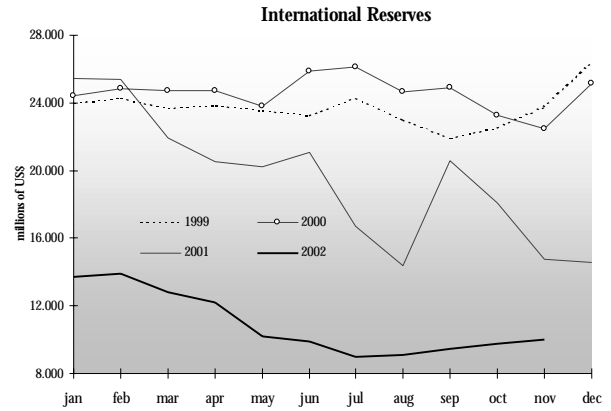
pesos. The monetary authority could increment the international reserves for net purchases to the private sector, as well as lowering the rate of exchange. The increase in the stock of deposits registered in August promoted a greater liquidity in financial entities, what led to a smaller assistance of the Central Bank and a steady decrease in interest rates. This positive tendency was consolidated in September: the exchange rate was relatively steady and produced a net capital inflow from foreign trade. The Central Bank continued accumulating international reserves and only needed to keep unchanged the stock of LEBAC as opposed to what happened in the previous months, when it had to place important quantities of LEBAC to partially sterilize the monetary expansion resulting from foreign currency purchases.

Later, in October and November, the monetary market continued evolving positively within a stable macroeconomic con-



## THE ARGENTINE ECONOMY

text. The very significant reduction of inflation levels, the increase of international reserves and the exchange market stability favored the demand for pesos. The assistance of the Central Bank to financial entities was not necessary because of an increase of deposits and the cancellation of credits which favored the recovery of the system liquidity levels. International reserves grew and a smaller need of sterilization by the placement of LEBAC resulted in a lowering of cut rates and an extension of these instruments terms.



# THE ARGENTINE ECONOMY

## Selected Macroeconomic Indicators I. Quarterly and Annual Indicators

	Source	Unit	III-01	IV-01	I-02	II-02	III-02	1998	1999	2000	2001
<b>National Accounts</b>											
GDP	(1)	YoY % Chg.	-4,9	-10,5	-16,3	-13,5	-10,1	3,9	-3,4	-0,5	-4,4
Goods	(1)	YoY % Chg.	-5	-12	-19	-13	-11	4	-5	-3	-5
Services	(1)	YoY % Chg.	-5	-9	-13	-12	-8	5	-2	1	-4
Private Consumption	(1)	YoY % Chg.	-6,5	-12,3	-18,8	-17,2	-13,1	3,9	-2,7	-0,4	-5,7
Public Consumption	(1)	YoY % Chg.	-2	-7	-8	-4	-7	3	1	0	-2
GDFI	(1)	YoY % Chg.	-17	-29	-45	-43	-38	7	-13	-9	-16
Construction	(1)	YoY % Chg.	-8,8	-20,6	-40,1	-38,3	-32,7	5,8	-12,1	-8,7	-9,4
Locally-manufactured Machinery and Equip.	(1)	YoY % Chg.	-21,6	-29,5	-32,3	-21,1	-21,5	2,2	-11,7	-9,0	-22,1
Imported Machinery and Equipment	(1)	YoY % Chg.	-36	-51	-73	-77	-71	13	-16	-8	-28
Exports of Goods and Real Services	(1)	YoY % Chg.	6	0	6	-2	3	10	-1	2	3
Imports of Goods and Real Services	(1)	YoY % Chg.	-17,9	-33,7	-57,4	-56,0	-50,0	8,1	-11,7	-0,5	-13,9
<b>External Sector</b>											
Balance of Payments	(2)										
Current Account	(2)	in millions of US\$	-671,1	366,2	1500,7	2674,1	2482,2	-14530,0	-11900,3	-8807,3	-4444,1
Merchandise	(2)	in millions of US\$	2337,0	2590,6	3736,4	4669,9	4450,4	-3097,2	-794,6	2558,0	7450,7
Real Services	(2)	in millions of US\$	-898	-501	-639	-420	-340	-4.433	-4.106	-4.288	-3.908
Financial Services	(2)	in millions of US\$	-2.154	-1.789	-1.674	-1.661	-1.707	-7.406	-7.397	-7.372	-8.213
Unilateral Transfers	(2)	in millions of US\$	44,1	65,6	76,8	84,9	77,9	406,3	397,5	294,1	226,5
Changes in International Reserves	(2)	in millions of US\$	-261,5	-6496,8	-2186,6	-3128,0	-215,2	3438,0	1201,0	-439,0	-12083,0
Exports of goods (FOB)	(3)	in millions of US\$	7.083	6.151	5.684	6.702	6.612	26.441	23.326	26.410	26.655
Imports of goods (CIF)	(3)	in millions of US\$	5.017	3.775	2.072	2.160	2.294	31.404	25.508	25.243	20.312
Trade balance	(3)	in millions of US\$	2066,0	2376,0	3612,0	4542,0	4318,0	-4963,0	-2182,0	1167,0	6343,0
Export price index	(3)	% Chg. in period	2,0	-4,8	-3,0	-1,0	4,2	-10,4	-11,2	10,2	-3,5
Import price index	(3)	% Chg. in period	-3	-2	6	-6	1	-5	-6	0	-3
Terms of trade index	(3)	% Chg. in period	5	-3	-8	5	4	-6	-6	10	-1
<b>Public Finance</b>											
NFPS overall surplus (incl. privatizations)	(4)	in millions of \$	-802	-2.713	-2.519	-582	-1.636	-4.074	-4.769	-6.792	-8.110
Total tax revenue	(4)	in millions of \$	11.424	9.856	9.489	12.326	14.062	50.042	47.643	49.102	45.430
Public debt	(4)	in millions of \$	141252,0	144453,0	112616,0	114753,8		112357,0	121877,0	128018,0	144453,0
<b>Money</b>											
Bimonetary deposits	(5)	in millions of \$	74.423	65.601	71.218	58.577	57.587	76.794	78.662	83.913	65.601
Bimonetary M3	(5)	in millions of \$	83562,0	74692,0	83418,0	71610,0	70484,0	90290,0	92383,0	96469,0	74692,0
<b>Interest rates</b>											
30-day deposits in \$	(5)	%	22	7	15	72	44	8	10	12	7
30-day prime loans in \$	(5)	%	33	n.d.	n.d.	n.d.	79	11	14	17	s.d.
<b>Capital Market</b>											
Merval (in US\$)	(6)	YoY % Chg.	-39,3	21,3	-46,7	-41,5	16,8	-37,6	28,4	-26,7	-29,3
Burcap (in US\$)	(6)	YoY % Chg.	-22,7	48,3	-32,6	-25,7	2,6	-22,8	26,9	-27,7	10,3
Discount strip	(6)	Basis points (*)	1.728	3.906	4.192	4.430	9.226	1.010	767	1.066	3.906
FRB	(6)	Basis points (*)	2.217	13.615	12.276	34.020	25.090	730	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

# THE ARGENTINE ECONOMY

## Selected Macroeconomic Indicators

### II. Monthly Indicators

	Source	Unit	May-02	Jun-02	Jul-02	Aug-02	Sep-02	Oct-02	Nov-02	Dec-02
<b>Activity</b>										
Monthly Industrial Estimator	(3)	Var.% 1 month (s.a.)	2,5	1,2	-1,1	2,8	-0,9	0,6	3,0	
		Var.% 12 months	-14,8	-15,6	-11,6	-7,9	-4,8	-4,5	0,9	
<b>Investment</b>										
Cement shipments	(7)	Var.% 12 months	-31,9	-31,3	-29,9	-22,0	-18,3	-11,7	-22,3	4,0
Import of capital goods CIF	(3)	Var.% 1 month	142,4	-55,0	20,8	24,1	-12,0	69,5	-34,2	
	(3)	Var.% 12 months	-65,8	-80,2	-74,8	-71,7	-67,2	-44,4	-54,6	
<b>Labor market</b>										
Activity rate	(3)	%	41,8	-	-	-	-	42,9	-	-
Employment rate	(3)	%	32,8	-	-	-	-	35,3	-	-
Unemployment rate	(3)	%	21,5	-	-	-	-	17,8	-	-
<b>Prices</b>										
CPI	(3)	Var.% 1 month	4,0	3,6	3,2	2,3	1,3	0,2	0,5	0,2
WDPI	(3)	Var.% 1 month	12,3	8,5	4,6	5,3	2,4	0,5	-1,7	-0,3
WBDPI	(3)	Var.% 1 month	12,8	8,9	4,7	5,2	2,6	0,5	-1,0	0,6
PBPI	(3)	Var.% 1 month	12,7	9,5	5,4	5,3	2,8	0,4	-0,7	0,6
CCI	(3)	Var.% 1 month	4,3	2,8	4,0	2,6	1,5	0,8	0,6	0,3
<b>Public Finance</b>										
Revenues from DGI, ANA and SSS	(4)	\$ millions	4.827	4.615	4.987	4.731	4.344	4.764	5.021	4.814
VAT	(4)	\$ millions	1.511	1.403	1.413	1.364	1.340	1.424	1.502	1.314
Income tax	(4)	\$ millions	893	833	764	844	683	849	1.111	938
Social security revenues	(4)	\$ millions	709	656	915	702	680	741	687	693
Foreign trade	(4)	\$ millions	554	710	865	812	609	745	769	653
<b>External sector</b>										
Exports of goods (FOB)	(3)	US\$ millions	2.343	2.213	2.211	2.151	2.250	2.229	2.176	
Imports of goods (CIF)	(3)	US\$ millions	862	687	813	764	717	874	807	
Balance of trade in goods	(3)	US\$ millions	1.481	1.526	1.398	1.387	1.534	1.355	1.369	
Liquid BCRA reserves	(5)	US\$ millions	10.185	9.629	8.986	9.102	9.404	9.787	10.22	
Nominal exchange rate	(5)	\$/US\$	3,60	3,80	3,68	3,62	3,73	3,53	3,61	3,36
<b>Money</b>										
Bimonetary deposits	(5)	\$ millions	60.153	58.577	56.927	57.612	57.587	58.899	61.658	
Bimonetary M3	(5)	\$ millions	73.554	71.610	70.375	70.878	70.484	71.959	75.626	
<b>Rates of interest</b>										
Deposits in \$ at 30 days	(5)	%	64,58	72,17	76,70	65,05	44,46	34,13	21,63	
Prime loans in \$ at 30 days (##)	(5)	%	-	-	-	102,38	78,83	55,24	39,41	
<b>Capital market</b>										
Merval	(6)	% chg. in period	-33,7	3,8	4,7	7,4	3,9	14,1	12,4	12,6
Burcap	(6)	% chg. in period	-14,3	1,3	0,2	3,8	-1,3	-0,2	9,9	0,9
Discount strip	(6)	Basis points (*)	4.268	4.430	5.284	7.748	9.226	4.434	3.779	5.821
FRB	(6)	Basis points (*)	21.548	34.020	36.603	45.328	25.090	23.713	27.804	31.628

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

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