



The Argentine Economy during the Third Quarter of 2001 and Recent Evolution

■ During the third quarter of 2001, the Argentine economy went around an economic policy stubbornly trying to achieve the zero deficit target¹ in order to reverse the strong unconfidence about the country's capacity to comply with external obligations, to recover the State's finances in a sustainable way and to reverse the recession the Argentine economy was undergoing for three years already.

Although at times the strong unconfidence prevailing in the first half of the year could be reversed, the Argentine economy measured by GDP recorded a strong decline in the quarter, which made negative expectations to not only reappear strongly but also to quickly deteriorate in the last part of the year, eventually ending up in an unprecedented social and political crisis that derived in the resignation of the Minister of Economy firstly and the nation's President later.

The GDP preliminary estimate in the third quarter of 2001 shows a negative variation of 4.9% with respect to the same period of the previous year, as well as a not less important fall (-3.7%) with respect to the previous quarter, in this case, seasonally adjusted.

Besides, judging by the preliminary indicators corresponding to the fourth quarter (such as industrial activity and construction), the recession of the economic cycle would have

deepened.

Also, employment indicators show an important deterioration. The unemployment rate increased to 18.3% in last October compared to 16.3% in May of the same year and 14.7% in October 2000. Thus, when absolute figures are considered the estimate is a rise around 505,000 unemployed in the last year (between October 2000 and October 2001), plus a decrease of approximately 380,000 employed.

In turn, consumer prices fell again during the quarter and even afterwards. In September 2001 they were 1.1% below the previous year, whereas wholesale prices fell 4.3%. In December 2001 such rates variation were -1.6% and -5.6%, respectively.

External trade balance continued strengthening as a consequence of the remarkable fall of imports and the still dynamic behavior of exports. In the third quarter of 2001, the trade surplus amounted to US\$ 2,350 millions, a figure more than four times higher than the same period of last year. This balance is the highest since the launching of the Convertibility, and even coincides with that obtained in the whole 1995, when the Tequila effect affected the Argentine economy. The adjustment of the trade account caused a year-on-year improvement of US\$ 1,477 millions of the balance of payments cur-

¹ Please see *Economic Report N° 38* for further details on the main guidelines of the zero deficit policy.

rent account deficit in the quarter, and it is the counterpart of the cut in external financing the country is suffering.

The financial market indicators recorded a strong deterioration in that quarter, but in the following they were alarming: Argentine bonds spreads exceeded 1,500 basis points in September and, later, to the extent the security about the non-compliance of external financial obligations grew, they constantly rose until exceeding 4,400 bp in December (with peaks higher than 5,400 bp).

In spite of the economy's weakness, the fiscal targets for September established in the agreement with the International Monetary Fund were complied with. In spite of the fact that tax revenues were lower than projected, the expenditure cut on the part of the government allowed for a small over-compliance around \$ 28 millions and \$ 382 millions, respectively, as for the targets set for the first nine months of the year with respect to deficit and primary expenditure. However, compliance was achieved thanks to the fact that the National Administration sent to the provinces less funds than the ones committed in the guarantee provision agreed upon. In the following quarter, as the financial situation grew worse, the deterioration of tax revenues accelerated even further, which caused that in the fourth quarter fiscal obligations agreed upon with the International Monetary Fund could not be complied with.

Then, it was not strange that the banking system was subject to growing pressures. The drainage of private sector deposits that took place along 2001 (after many years of sustained growth) became more and more intense. These deposits dropped \$ 5,400 millions in July, in August showed a much lower fall (-\$ 1,844 millions) and partially increased in September,

ending the quarter with an accumulated reduction of \$ 6,100 millions (-7.8%). At the end of 2000, the decline was 9%. The drop continued in the following two months (-\$ 3,806 millions in October and \$ 4,479 millions in November), accumulating an outflow of \$ 15,500 millions (-19.6%) in the year, which led economic authorities to implement restrictions to depositors on cash withdrawals.

The economic strategy

As said at the beginning, during the third quarter, the zero deficit act was passed, which established that the Federal Government shall limit expenses to available revenues.

The main concept of this act is that expenses cannot exceed revenues, in order that public debt stopped growing².

However, the worsened recession again raised strong doubt among investors about the repayment capacity of immediate financial obligations. In view of the tone of events, boosted by the growing political tension between National Administration and the provinces as regards where the expenditure cut would be done so as to achieve the zero deficit, the National Administration deemed it convenient to make a new debt swap. Said swap was divided into two tranches, the first one (the local one) was completed at the beginning of last December. It consisted in the repurchase of the old National and Provincial bonds and obligations in exchange of collateralized interest rate bearing loans and under more favorable amortization conditions³. The debt conversion was offered directly to financial entities, investment funds, insurance companies and private pension fund managers, and included all type of Public Debt transac-

² The measures applied during the third quarter of 2001 were commented in Economic Report N° 38, within the introduction chapter itself. They can be consulted at <http://www.mecon.gov.ar/report/report38/introduction.pdf>.

³ Please see the detail in the Chapter "Capital Markets".

tions of the National Public Sector, which the Ministry of Economy considered eligible for that sake, whether they were instrumented as Public Securities, Bonds, Treasury Bills or non collateralized loans. Of the U\$S 95,000 millions total debt in bonds that entered in such a swap, some U\$S 50,000 millions were swapped for collateralized loans.

The original proposal consisted in completing the swap of around U\$S 45,000 million bonds still held or under the custody of foreign investors, and they should be swapped respecting the law of the countries in which said bonds were originally issued, which made the transaction more complex and, consequently, was foreseen to be completed in 60 or 90 days more. However, the bank crisis at the beginning of December caused the outbreak of the already latent political crisis that eventually brought about the resignation of the Minister of Economy and, then, of the President by mid said month. Such events generated the stand-by of the treatment scheduled for the international tranche of public debt, and even the first interim President elected by the Legislative Assembly (who resigned in a few days) decreed the default on external debt payments.

The other transcendental measure taken in the last part of the year, forced by the strong flight of deposits, which was particularly intense on November 30 (withdrawals on that date were U\$S 1,500 millions), was the restriction on cash withdrawals from bank accounts, as well as the control of transfers abroad with the exception of those corresponding to foreign trade transactions or those related to debit and credit card transactions. Thus, the risk of a systemic financial crisis that could prejudice investors and economic activity in general was tried to be avoided, at the time it was sought to encourage the use of electronic payment media by prohibiting that entities charge any fee for electronic transfers of funds made by their customers.

After the political crisis mentioned two paragraphs before, the Nation's President, Eduardo Duhalde, taking office

on January 1^o, 2002, designated until October 2003, decreed the exit from the Convertibility regime. However, given the characteristics this regime had acquired at the end (in the middle of the so called "financial enclosure", the exchange control and the excessive dollarization), led the government to establish, temporarily, an exchange rate managed by the government. Thus, the exchange market was divided into an official dollar at \$ 1.40 pesos for most foreign trade transactions and a free dollar for the remaining transactions within the economy.

The initial aim of this devaluation was to appease dollar demand and to encourage a higher supply. On the other hand, the setting of the exchange control made it inevitable the appearance of two markets. It is worth highlighting that the exchange modification was made through Act 25,561 of Public Emergency and of Reform of Exchange Regime passed in only 48 hours by the national Congress. The Government, in turn, has expressed its wish to go to a floating regime once the exchange rate stabilizes.

Said act authorizes the National Executive Power to take measures aimed at reducing the impact of the exchange relation modification over the sectors earning fixed income and juridical persons or individuals being indebted in foreign currency within the financial system.

Similarly, the act establishes that the National Executive Power may adopt measures to preserve the capital of investors who had made deposits in financial entities. The restructure of deposits must be compatible with the solvency of the financial system. From the establishing of an initial schedule and the adjustments that take place to flexibilize and, thus, release the transactions that affect the production process, the government's objective is to minimize its degree of intervention within the system.

On the side of debts, those obtained within the financial sector would be restructured, maintaining the exchange rate one to one for amounts not exceeding U\$S 100,000 orig-

inated as mortgage loans used for the acquisition of homes, construction, refacing and/or expansion of homes, personal loans, collateralized loans for the acquisition of automobiles, loans to juridical persons or individuals that meet the requirements as micro, small and medium size company. In this case, the National Executive Power may also take compensatory measures aimed at preventing imbalances in financial entities. Among these measures, there was initially the issue of collateralized Federal securities in foreign currency. For the sake of constituting the legal collateral, the act creates a duty over the export of hydrocarbon in force for 5 years.

Among other things, the act establishes that debts or outstanding balances of debts originally made in pesos and transformed into dollars by Decree N° 1570/2001 shall maintain the original currency denomination. On the other hand, the new deposits and loans of the system shall be agreed upon freely by the parties and shall not be subject to any restriction.

The success of the new temporary exchange system depends greatly on the evolution of prices, since a low translation of the devaluation into prices is a condition necessary for the new exchange regime to be effective. In view of the impact the devaluation might have over prices in general, the Government decided not to intervene directly in those markets considered competitive, appealing to the responsible freedom of consumers and businessmen. Thus, the Government chooses to avoid, in principle, any mechanism of price control, in spite of section 13 of said act that authorizes the National Executive Power to regulate, temporarily, prices of inputs, essential goods and services, in order to protect the rights of users and consumers from an eventual distortion of markets or from monopoly or oligopoly actions.

For that sake too, the act abolishes all legal rules that establish or authorize price indexation, currency updates, cost variation or any other form that may increase debts, taxes, prices

or rates of goods, works or services. This abolishment shall apply even to existing juridical relations and situations, and no legal, regulation, contractual or conventional provision (even collective bargain agreements) with a prior date may be alleged or applied to adjust the amounts of pesos due.

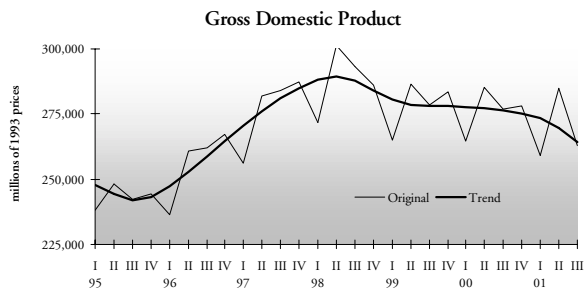
The Government knows the importance of keeping a rigid monetary discipline to maintain the value of the currency. For that sake, the act establishes that, at all times, Central Bank gold and foreign exchange reserves shall be applied to back the monetary base. When reserves are invested in deposits, other interest transaction, or in public national or foreign securities payable in gold, precious metals, American dollars or other currency with similar solvency, it shall be computed, for the sake of this act, at market value.

Following, as it is usual in this Economic Report, there is a summary of the Chapters included.

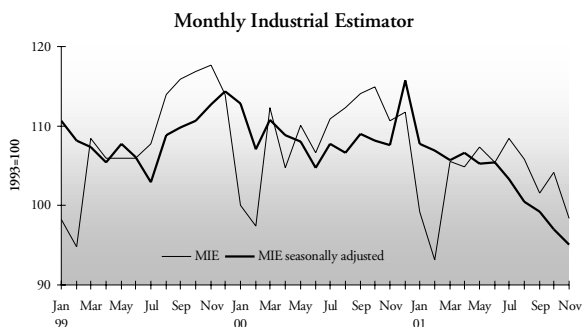
Economic activity

The macroeconomic evolution of the third quarter of 2001 determined, according to preliminary estimates, a negative variation of 6.5% of overall supply (measured at 1993 prices) with respect to the same period of the previous year. This decrease was generated by a 4.9% decline of GDP and a 18.7% fall of imports of real goods and services. Taking into account overall demand, there was a 17.6% negative variation of gross domestic fixed investment and a 5.0% rise of exports of real goods and services. The decrease of private consumption was 6.5%, whereas public consumption was somewhat lower (-2.1%).

Particularly, the goods producing sectors had, during the third quarter of 2001, a negative variation of 5.5%, mainly determined by the drops of economic activity in the manufacturing industry (-7.1%) and construction (-12.3%). The ser-



vices producing sectors recorded a 4.6% year-on-year decline. The preliminary variation of GDP seasonally adjusted for the third quarter of 2001 with respect to the second showed a 3.7% reduction.



The Monthly Industrial Estimator (MIE) prepared by the INDEC declined again in October (-9.3%) and November (-11.1%) with respect to the same month of the previous year, and accumulated a 5% fall in the first 11 months of 2001. As for the previous month, the seasonally adjusted variation in November also showed a negative behavior (-2%).

In this last month, the categories whose economic activity fell the most were automotives (-43%), textiles (-36.8%), metal-mechanical industries (-28.2%), non metal minerals (-21.4%) and basic metals (-18.5%). Only chemicals and the paper industry showed small growths (1.2% and 0.9%, respectively).

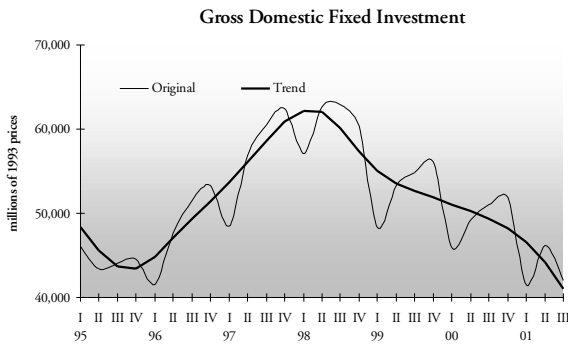
Most of the firms consulted in the qualitative survey indicated that they do not expect increases for 2002, neither in local or external demand, nor in purchases of imported inputs or hiring of employees. Questioned about the relevant categories to improve their competitiveness, 32.1% believed that the main one was the reduction of the financial cost, followed by a reduction of taxes (24.4%) and improvement of the effective exchange rate (16.6%).

The Synthetic Indicator of Public Services again showed negative year-on-year variations in October and November (-4.3% and -5%, respectively). The fall was also reflected in the seasonally adjusted variation of November as compared with the previous month, which decreased 1%, but not in the accumulated of the first 11 months, which showed a rise of 0.2%. During the month, electric generation and gas production recovered, at the time the expansion of cellular phones was maintained. The rest of indicators showed a negative performance.

Investment

In the third quarter of 2001, Gross domestic fixed investment measured at constant prices fell again, as has been doing for three years now. The 17.6% year-on-year fall recorded was the result of a strong drop in the use of durable equipment (-29.6%) and a lower one of construction (-9.4%).

In the quarter, the fall showed by investment in production equipment affected rather imported than national one. Whereas the former dropped 35.8%, national equipment declined 21.6%. The contraction would be the result of the fall of available income, given the stagnation of GDP during a long period of 3 years and the negative expectations generated about the delicate fiscal situation, given the recessive context, and about external debt. In turn, the price effect had no relevance



because, in the period, there was a fall of capital goods that did not translated into an increase of demand. On the contrary, there was indeed a reaction of the price of substitutes, shown through interest rates. The policy measures implemented, such as competitiveness plans and several fiscal incentives, did not manage to revert a context unfavorable for investments either.

Measured at current values, investment in the third quarter was \$ 37,353 millions, a figure that accounts for 13.8% of current GDP, the lowest ratio of the historical series. The level of implicit prices of the GDFI also shows a low historical value of 88.9 (11.1% below the base 100 in 1993), whereas those of GDP is 3.2% above the base.

Forecasts for the fourth quarter are even more discouraging. The synthetic Indicator of construction activity (ISAC) shows an 18.6% fall for the period October-November and a 43.3% drop for building permits. In the last quarter of the year, cement dispatches to the domestic market were 23.9% lower and the rest of inputs, except asphalt, showed falls in consumption and production in October. As for real estates, mortgage loans declined 53.4% in said month and the number of deeds of conveyance executed in the fourth quarter dropped 28.9%.

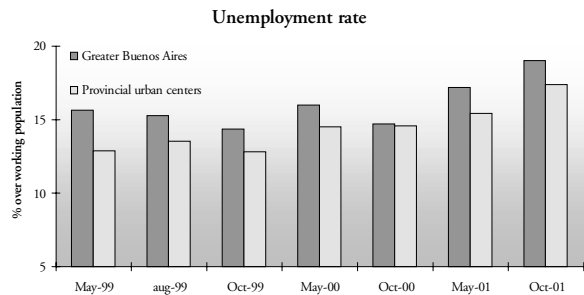
Investment in national production and imported equipment is also foreseen to show a negative behavior given that sales of automotives to the domestic market decreased 50.6%

and imports of capital goods were 43.9% lower in the period October-November.

The performance of the above discussed indicators adds up to a context of a strong financial system crisis that determined the freeze of deposits at the beginning of December causing a severe interruption of the payments chain that makes it unfeasible a production recovery in the short term.

Labor Market

Results of the Permanent Household Survey (PHS), made by the INDEC in October 2001 in 28 urban conglomerates of the country, revealed that the open unemployment rate average for all the urban conglomerates covered by the EPH amounted to 18.3% in said month, a level remarkably higher than the 14.7% corresponding to October of the previous year.



This behavior is mostly the result of a reduction of around two percentage points in employment rate (from 36.5% in October 2000 to 34.5% in 2001); whereas the activity rate shows a slight decrease around 0.5 percentage points. At absolute figures, an increase of around 505,000 unemployed is estimated along the last year, plus a decrease of around 380,000 employed.

According to the basic information from file presenta-

tions made by companies to the Integrated System of Retirement and Pension Benefits, the monthly average salaried jobs declared in the third quarter of 2001 amounted to 4,661,000 jobs, which implies some 27,000 jobs less (-0.6%) than the same period of the previous year. The monthly average wage was \$ 850, 1.8% below the figure recorded in the third quarter of 2000.

Prices

In the third quarter of 2001, Argentine economy prices deepened their trend to deflation. The worsening of domestic recession partly due to the hard fiscal situation, in turn reflected competitiveness problems and a high indebtedness of previous years, and eventually the outbreak of the financial crisis were the concurrent factors that pushed prices downwards. In this period, all domestic price indexes fell in annual figures. Implicit prices within the gross domestic product dropped 0.7%, retail prices declined 1.1%, wholesale prices fell 4.1% and construction prices lost 0.6%. Thus, combined prices accelerated their fall down to 2.6% and, in the next months, this trend was even worse. However, there was a very slight improvement of external trade terms (rose 0.3%) and a soft rise of the exchange rate with relation to both the dollar and the euro. Nevertheless, the same indicator plunged approximately 20% with respect to Brazil, basically due to the strong fall of the real. The fall of the Brazilian currency against the dollar, partly caused by the Ar-

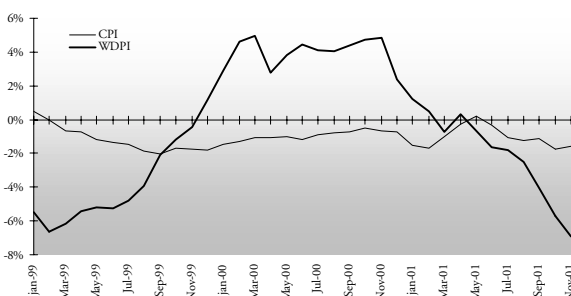
gentine crisis itself, showed clear signs of reversion in the last months, when the real recovered from 2.74 per dollar in October to less than 2.40 per dollar in December.

In terms of annual inflation, by the third quarter of this year, retail prices in the area of the euro recorded a slowdown to 2.5% (compared to 3% in the second quarter), United States showed a slightly higher increase (3%) while, on the contrary, Japan, immersed in a long recession the same as Argentina, also experienced a deflation of 0.8%. In Brazil, inflation amounted to 7.3% p.a. at the end of the third quarter, and rose slightly in October and November.

Prices of the main raw materials recorded a fall of 3.7% in the third quarter of 2001 with respect to the same period of 2000. Oil, the most important raw material, fell in last September down to U\$S 25 dollars and later on declined below U\$S 20 per barrel by the end of the year. Cereals showed an erratic behavior in the third quarter, oilseeds partially recovered, whereas metals in general fell. More recently, perspectives for cereals and oilseeds improved.

According to IMF projections, the average price of commodities (excluding fuels) would show a slight drop during the rest of the year and in the first quarter of 2002. Nevertheless, prices should recover since the second half of 2002, when world economy resume the upward trend. For this year and the next, the IMF estimates a rise of global GDP of just 2.4%, a figure much lower than 2000 growth.

YoY Changes in Retail and Wholesale Price Indexes

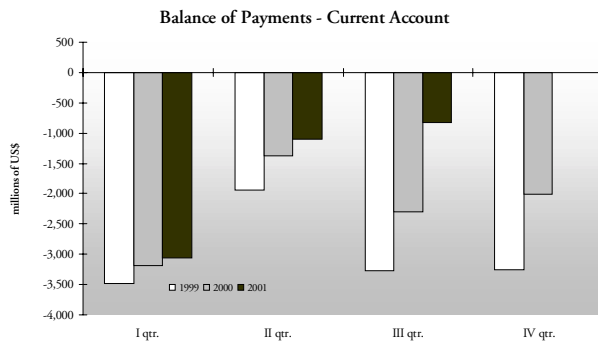


External sector

In the third quarter of 2001, the balance of payments reflected, on the one hand, a strong adjustment of the current account deficit as a result of the fall of economic activity, and, on the other hand, a significant outflow of private capital fi-

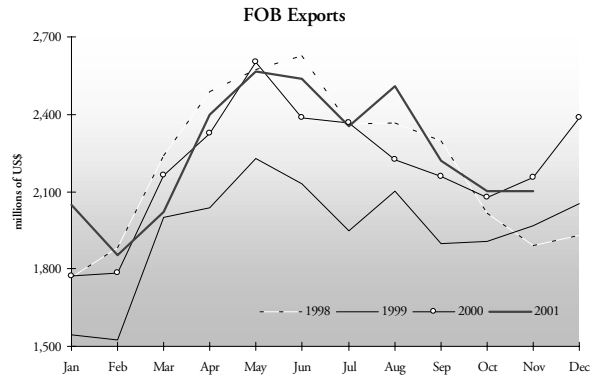
nanced with income from International Monetary Fund loans and other international agencies loans, contingent repo facilities from the Central Bank and the use of bank liquidity requirements deposited abroad.

The balance of the current account recorded a deficit of U\$S 825 millions, with a fall of U\$S 1,477 millions (- 64%) with respect to the deficit of the same period of 2000. This improvement was mainly due to the evolution of the goods account that went from a surplus of U\$S 510 millions in the third quarter of 2000 to a surplus of U\$S 2,359 millions in the same quarter of 2001. Besides, there was a fall of U\$S 180 millions in outlays for profits and dividends accrued due to the lower profitability of companies with direct investments in the country. On the contrary, the deficit for net interests increased U\$S 477 millions, basically due to the drop of international interest rates, which had a greater effect over external assets yields.

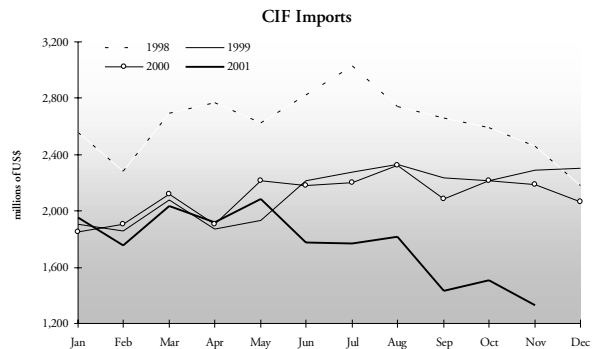


The year-on-year improvement of the goods account surplus (U\$S 1,849 millions) was mainly the result of the fall of imports and, to a much lesser extent, of the increase of exports. The fall of imports, greater between July and September, was linked to the lower economic activity; whereas the increase of exports was the result of the rise of volume exported since exports prices declined.

In the first nine months of 2001, exports of goods amounted to U\$S 20,504 millions and FOB imports totaled U\$S 15,595 millions. Thus, the trade surplus of the period



amounted to U\$S 4,909 millions, the highest since 1991. As for January-September of 2000, the improvement of the trade balance amounted to \$ 2,868 millions; exports grew 3.6% and imports fell 12%.

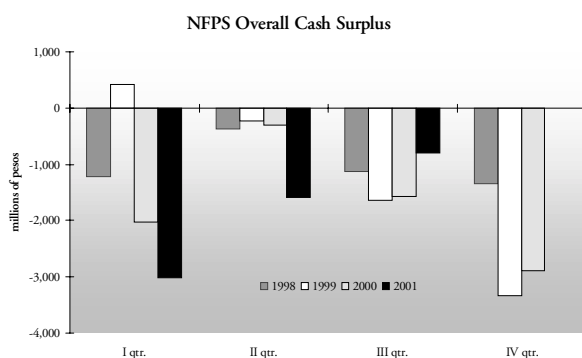


Public finance

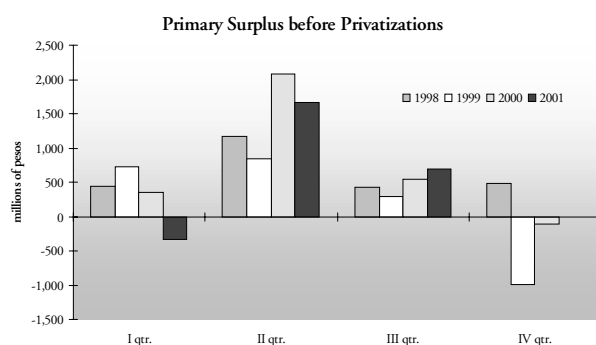
In the third quarter of 2001, the overall result of the Non Financial National Public Sector (NFNPS), based on effective income and outlays, recorded a deficit of \$ 855.3 millions. With respect to the same quarter of 2000 it meant a fall of \$ 787.5 millions, due to the fact that the expense reduction was higher than revenues. The fall of the current revenues was mainly the result of the behavior of the tax revenues, followed to a lesser extent by contributions to Social Security, real estate returns and operating income. Tax revenues declined \$ 753.1 millions. This fall, accounting for 70% of the quarter's revenue drop, was softened partly by non tax revenues, which with \$

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689.3 millions, were \$ 212 millions above the figure recorded in the same quarter of 2000, as a consequence of the result of the sale of collateral over Brady bonds and of the net proceed of the convergence factor.



Total expenses experienced a fall of \$ 1,843.1 millions with respect to the execution made in the same period of 2000. The drop was the consequence of a strong reduction of debt interest payments (which fell \$ 624.5 millions), the decrease of current transfers (-\$ 623.9 millions), the cut in expenses related to Social Security Benefits (-\$ 404.9 millions) and in wages and goods and services (-\$ 178.4 millions). These falls were offset partly by the rise of Guarantee transfers for Provincial Agreements, \$ 201.4 millions higher than one year before. Thus, the item that fell the most was external debt interest payments, which for the first time in eleven quarters falls as a consequence of the incidence of the debt swap that took place last June. Primary expenditure (a concept that excludes interest payments) undergone a reduction of \$ 1,227.5 millions with



respect to the same quarter of 2000, which caused a primary surplus increase of \$ 147.4 millions in that period.

These results, plus outlays as extraordinary expenses for the Organization Restructure Fund, the estimate of BCRA quasi-fiscal result and the adjustment as per the IMF agreement for the debt swap (that includes interests paid, savings for interests of bonds repurchased and revenues for Brady bonds profits) implied a deficit of \$ 6,572.5 millions for the first nine months of the year, thus over complying the fiscal deficit target agreed upon in the Memorandum of Economic Policy executed with the IMF for said period of \$ 28.5 millions. As usual, such excess can be carried forward to the next quarter. It is also remarkable the simultaneous over compliance of the target related to Primary Expenses, having accumulated a favorable gap of \$ 381.7 millions in the first nine months of the year.

Capital Markets

In the third quarter of 2001, the local financial and economic crisis become worse, whereas assets prices continued falling as they had been doing during almost all the year. The value of stocks listed within the Merval indicator fell some 295 average points, 32% with respect to second quarter of the year. The main public securities (Brady and global bonds) also fell, so sovereign risk implicit in their prices rose to an average quarterly figure of 1500 basis points.

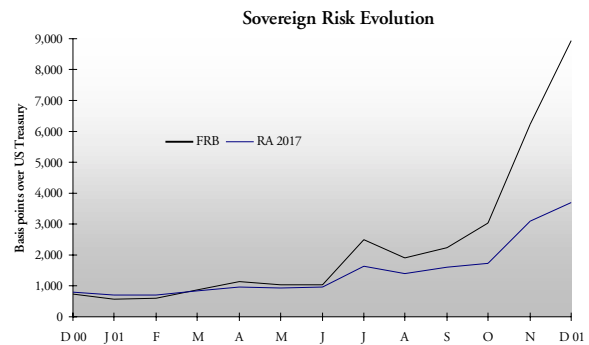
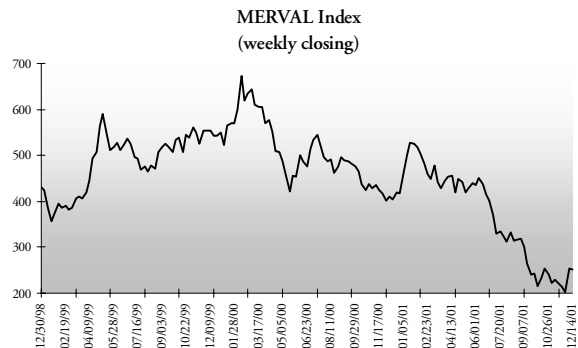
The domestic context was marked by a deeper recession and growing difficulties to close the fiscal gap. In the third quarter of 2001, GDP dropped 4.9%, a fall much greater than the one recorded in the first half of the year, and the national fiscal deficit climbed to U\$S 5,400 millions in the first nine months of the year, with a growing incidence of interests within total public expenditure. Thus, the recession lasted for al-

most four years, becoming the longest of the last 50 years. The zero deficit fiscal policy that was tried to be implemented since August failed due to the continuous and greater fall of tax receipts. In October and November, this process continued worsening, in a context of a growing deposits flight from the bank system (more than 20% of the total) and a greater loss of reserves (in excess of U\$S 10,000 millions).

In view of the impossibility of meeting its financial obligations, the previous government made a huge swap of public securities held by residents for around U\$S 50,000 millions. However, expectations did not improve and, as a consequence of the non compliance of the IMF fiscal targets, the agency finally suspended the financial assistance negotiated to recover reserves. In December, measures restricting and freezing funds were implemented to try and stop the flight of deposits, which finally derived in the outbreak of an unprecedented social and economic crisis. At the closing of this report, after the government authorities' resignation and the election of an interim president designated until 2003, measures to gradually normalize the financial system and to manage an ordered exit from convertibility were implemented, at the time the default on external debt payments was announced. The Merval had partially recovered, exceeding 250 points, after having touched the lowest of the convertibility period. The indicator measuring country risk, prepared by the J. P. Morgan investment bank, had boosted up to more than 4000 basis points and the domestic scenario showed a great uncertainty.

The international context was characterized by the start of the recession in United States, which become worse after the September terrorist attacks to said country. The main antecedent was a strong fall of stock exchanges started in 2001, in turn reflecting the loss of profitability of high technology sectors. In order to fight economic slowdown, the U.S. Federal Reserve implemented an aggressive policy of 11 successive reductions

of the short term interest rate, setting it at 1.75%. Besides, the government tried to encourage demand through tax reductions, but despite these measures, the American economy fell into a recession in the second half of 2001. European and Japan's central banks also tried to inject liquidity into their economies, reducing interest rates to soften the global slowdown. Consequently, in October and November, stock exchanges of the main world economies partially recovered, led by the Dow Jones indicator. Also, a strong fall of projected world growth in 2002 (2.4%) and a lower capital flows towards Latin American economies was announced.



Money and banking

In the third quarter of 2001, there was a strong reversion of the slight recovery evidenced by monetary and financial variables during the previous quarter. In fact, at the end of September 2001, total deposits amounted to \$ 75,149 mil-

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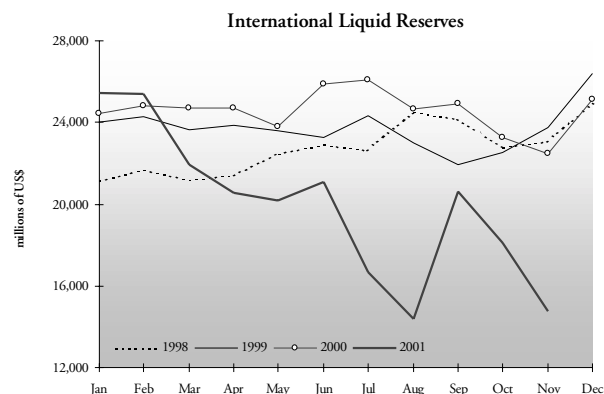
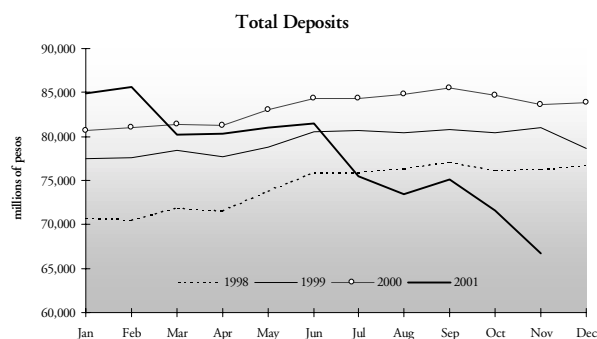
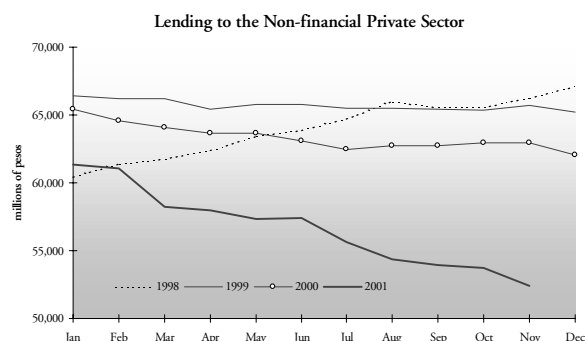
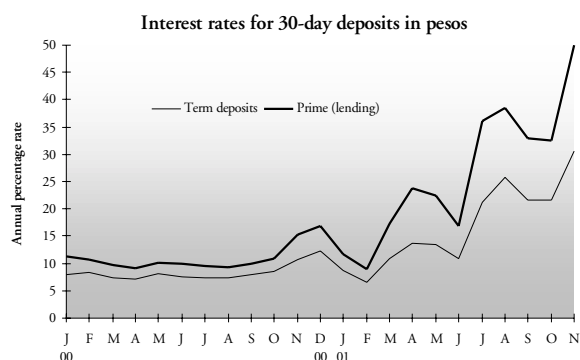
lions with a fall of 9.9% with respect to the end of June 2001. There were falls in both peso deposits (-\$ 4,265 millions) and dollar deposits (- \$ 2,047 millions). Monetary aggregates accompanied the evolution of economic activity and capital movements; the bimonetary aggregate M3* declined 10.4% in the quarter and the peso aggregate, M3, deteriorated 15.5%.

At the end of September 2001, reserves of the financial system amounted to U\$S 24,486 millions, U\$S 3,977 millions less than at the end of June. Domestic interest rates increased significantly. The level of borrowing and lending rates in pesos doubled between July and September 2001; in turn, interbank rate in pesos 15 days, climbed to 48.27% in July and settled in 11.44% at the end of September.

At the beginning of October, the pre-election mood again affected investors and savers expectations. Since then, the

increase of political uncertainty generated a strong fall of deposits. The fall of deposits was accompanied by the lower liquidity of banks and fall of reserves of the system at the Central Bank. The illiquidity, together with the deterioration of portfolio quality – due to the fall of economic activity –, deteriorated private sector credit and caused the cost of money to remain at significantly high levels.

Thus, at the end of November, total deposits amounted to \$ 66,678 millions revealing a fall of \$ 17,234.5 millions (- 20.5%) with respect to the end of December 2000. Private sector deposits dropped \$ 4,967 millions during that month. Only in the last two working days of the same month, the private sector withdrew \$ 2,040 millions (41.1% of the total fall of the month) from the system. On November 30, the fall amounted to \$ 1,522 millions, as a result of which the Government decided to restrict the availability of funds deposited by the public.



THE ARGENTINE ECONOMY

Selected Macroeconomic Indicators

I. Quarterly and Annual Indicators

	Source	Unit	III-00	IV-00	I-01	II-01	III-01	1998	1999	2000
National Accounts										
GDP	(1)	YoY % Chg.	-0.6	-1.9	-2.0	-0.2	-4.9	3.9	-3.4	-0.5
Goods	(1)	YoY % Chg.	-2.6	-4.4	-4.7	0.9	-5.5	4.3	-5.4	-3.0
Services	(1)	YoY % Chg.	0.5	-0.3	-0.8	-0.8	-4.6	4.7	-1.5	0.5
Private Consumption	(1)	YoY % Chg.	-0.2	-2.7	-1.8	-2.1	-6.5	3.9	-2.7	-0.4
Public Consumption	(1)	YoY % Chg.	1.6	-0.5	0.5	0.4	-2.1	3.4	0.8	-0.4
GDFI	(1)	YoY % Chg.	-6.9	-7.5	-9.5	-6.2	-17.6	6.5	-12.8	-8.6
Construction	(1)	YoY % Chg.	-3.4	-5.4	-6.8	-0.9	-9.4	5.8	-12.1	-8.7
Locally-manufactured	(1)	YoY % Chg.	-16.2	-14.4	-18.0	-18.9	-21.6	2.2	-11.7	-9.0
Imported Machinery and Equip.	(1)	YoY % Chg.	-7.4	-6.5	-9.9	-9.7	-35.8	12.5	-15.5	-7.9
Exports of Goods and Services	(1)	YoY % Chg.	1.5	2.9	0.7	4.6	5.0	9.9	-1.4	2.0
Imports of Goods and Services	(1)	YoY % Chg.	-2.2	-2.7	0.8	-4.2	-18.7	8.1	-11.7	-0.5
External Sector										
Balance of Payments	(2)									
Current Account	(2)	in millions of US\$	-2,302	-2,004	-3,068	-1,095	-825	-14,603	-11,945	-8,885
Merchandise	(2)	in millions of US\$	510	517	504	2,046	2,359	-3,117	-795	2,558
Real Services	(2)	in millions of US\$	-1,050	-898	-1,533	-1,061	-1,033	-4,398	-4,056	-4,359
Financial Services	(2)	in millions of US\$	-1,834	-1,695	-2,100	-2,133	-2,209	-7,385	-7,473	-7,376
Unilateral Transfers	(2)	in millions of US\$	72	71	62	53	59	297	379	292
Changes in International Reserves	(2)	in millions of US\$	-2,208	1,121	-3,886	-1,439	-262	3,438	1,201	-439
Exports of goods (FOB)	(3)	in millions of US\$	6,749	6,620	5,921	7,500	7,083	26,441	23,326	26,410
Imports of goods (CIF)	(3)	in millions of US\$	6,605	6,463	5,742	5,777	5,017	31,404	25,508	25,243
Trade balance	(3)	in millions of US\$	144	157	179	1,723	2,066	-4,963	-2,182	1,167
Export price index	(3)	% Chg. in period	1.6	2.0	-2.1	-5.1	2.8	-10.4	-11.2	10.2
Import price index	(3)	% Chg. in period	-2.5	0.3	1.1	-1.7	-2.5	-5.1	-5.6	0.0
Terms of trade index	(3)	% Chg. in period	4.2	1.7	-3.2	-3.4	5.5	-5.5	-5.9	10.2
Public finance										
NFPS overall surplus (incl. privatizations)	(4)	in million of \$	-1,574	-2,884	-3,015	-1,580	-802	-4,074	-4,769	-6,792
Total tax revenue	(4)	in million of \$	12,507	11,875	11,305	12,818	11,424	50,042	47,643	49,102
Public Debt	(4)	in million of \$	123,666	128,018	127,401	132,143	141,252	112,357	121,877	128,018
Money										
Bimonetary deposits	(5)	in million of \$	85,502	83,913	80,658	81,461	75,149	76,794	78,662	83,913
Bimonetary M3	(5)	in million of \$	96,861	96,470	91,939	92,363	84,172	90,290	92,383	96,470
Interest rates										
30-day deposits in \$	(5)	%	7.9	12.3	10.8	11.0	21.6	8.1	10.3	12.3
30-day prime loans in \$	(5)	%	10.0	16.9	17.3	16.8	32.9	10.8	13.5	16.9
Capital Market										
Merval	(6)	% Chg. in period	-7.5	-12.3	6.5	-9.4	-39.3	-37.6	28.4	-26.7
Burcap	(6)	% Chg. in period	-8.8	-13.1	6.8	-9.9	-22.7	-22.8	26.9	-27.7
Discount strip	(6)	Basis points (*)	928	1066	1155	1347	1728	1010	767	1066
FRB	(6)	Basis points (*)	587	681	1048	1292	2217	730	589	681

(*) 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

THE ARGENTINE ECONOMY

Selected Macroeconomic Indicators

II. Monthly Indicators

	Source	Unit	May-01	Jun-01	Jul-01	aug-01	Sep-01	Oct-01	Nov-01	dec-01
Activity										
Monthly Industrial Estimator	(3)	Var. % 1 month (s.a.)	-1.3	0.1	-2.0	-2.8	-1.2	-2.2	-2.0	n.a.
Investment										
Cement shipments	(7)	Var. % 12 months	-3.0	-1.1	-2.5	-17.1	-23.7	-20.5	-17.5	-34.5
Import of capital goods CIF	(3)	Var. % 1 month	16.4	-22.2	5.1	10.7	-23.4	-0.7	-19.6	n.a.
Labor market										
Activity rate	(3)	%	42.8	-	-	-	-	42.2	-	-
Employment rate	(3)	%	35.8	-	-	-	-	34.5	-	-
Unemployment rate	(3)	%	16.4	-	-	-	-	18.3	-	-
Prices										
CPI	(3)	Var. % 1 month	0.1	-0.7	-0.3	-0.4	-0.1	-0.4	-0.3	-0.1
WDPI	(3)	Var. % 1 month	0.1	-0.4	-0.4	-0.5	-0.4	-1.5	-1.4	-0.1
WBDPI	(3)	Var. % 1 month	0.3	-0.4	-0.3	-0.5	-1.1	-1.6	-1.4	-0.2
PBPI	(3)	Var. % 1 month	0.5	-0.3	0.0	-0.5	-1.2	-1.7	-1.2	-0.1
CCI	(3)	Var. % 1 month	-0.2	-0.1	-0.2	-0.6	-0.2	-0.5	-0.2	-0.1
Public Finance										
Revenues from DGI, ANA and SSS	(4)	\$ millions	4,691	4,590	3,858	4,064	3,503	3,596	3,468	2,819
VAT	(4)	\$ millions	1,383	1,394	1,265	1,357	1,143	1,079	1,090.2	825.2
Income tax	(4)	\$ millions	1,549	1,315	747	785	690	727.6	718.6	640.9
Social security revenues	(4)	\$ millions	651	670	832	669	646	648.4	595.4	433.7
External sector										
Exports of goods (FOB)	(3)	US\$ millions	2,566	2,537	2,355	2,510	2,218	2,104	2,103	n.d.
Imports of goods (CIF)	(3)	US\$ millions	2,081	1,778	1,768	1,818	1,431	1,511	1,333	n.d.
Balance of trade in goods	(3)	US\$ millions	485	758	587	692	787	593	770	n.d.
Liquid BCRA reserves	(5)	US\$ millions	20,197	21,089	16,693	14,402	20,596	18,089	14,753	14,551
Nominal exchange rate	(5)	\$/US\$	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Money										
Bimonetary deposits	(5)	\$ millions	81,042	81,461	75,522	73,423	75,149	70,087	65,146	63,059
Bimonetary M3	(5)	\$ millions	91,834	92,363	85,805	82,745	84,172	81,291	75,688	74,598
Rates of interest										
Deposits in \$ at 30 days	(5)	%	13.6	11.0	21.2	25.8	21.6	21.72	30.55	n.d.
Prime loans in \$ at 30 days	(5)	%	22.4	16.8	36.2	38.6	32.9	32.62	49.95	n.d.
Capital market										
Merval	(6)	% Chg. in period	0.8	-8.4	-20.3	-0.2	-23.9	-7.7	-9.9	24.8
Burcap	(6)	% Chg. in period	-1.5	-9.6	-8.9	0.7	-15.7	-3.8	2.6	19.8
Discount strip	(6)	Basis points (*)	1,115	1,347	1,738	1,568	1,728	1,863	3,910	3,412
FRB	(6)	Basis points (*)	816	1,292	2,857	1,902	2,217	3,029	6,238	8,918

(*) 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 Manufacturers