ARGENTINA

Table 1	2021
Population, million	45.8
GDP, current US$ billion	486.4
GDP per capita, current US$	10622.9
International poverty rate ($2.15)[a]	1.1
Lower middle-income poverty rate ($3.65)[a]	3.5
Upper middle-income poverty rate ($6.85)[a]	14.1
Gini index[a]	42.3
School enrollment, primary (% gross)[b]	109.5
Life expectancy at birth, years[b]	76.8
Total GHG emissions (mtCO2e)	412.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2020), 2017 PPPs.
b/ WDI for School enrollment (2019); Life expectancy (2020).

Following the strong recovery after a three-year recession, economic activity is projected to expand at a slower pace as economic imbalances slow growth and foreign reserve accumulation, despite historically high terms of trade. High inflation continues to deter progress in poverty reduction. Complementing macroeconomic stabilization, anchored in an IMF program, with reforms that bolster investment and facilitate formal private sector job creation would strengthen growth and shared prosperity.

Key conditions and challenges

Argentina is struggling with large macroeconomic imbalances, which are slowing the pace of economic growth. Economic activity recovered quickly from the COVID crisis and returned to pre-pandemic levels in 2021. However, output is still two percent below its previous cyclical peak and growth has slowed since early 2022. Budgetary rigidities and discretionary transfers contribute to fiscal deficits and their monetization, fueling inflation. Tight capital controls are leading to large gaps between official and alternative FX markets, preventing the Central Bank from accumulating international reserves, despite historically high terms of trade. Capital controls and policy uncertainty delay exports and curb imports needed to support growth beyond the recovery.

While employment increased steadily to above pre-pandemic levels, job quality is low as most new jobs are own-account and informal. Poverty incidence continues above pre-pandemic levels as high inflation counteracts the effects of the relatively positive performance of the labor market. Despite lower unemployment over the last year, economic opportunities for youth are limited—particularly among young women with low levels of education.

Argentina is struggling to find new sources of growth since the end of the commodity super-cycle that led to an increase in real incomes, but which also triggered, in part, an unprecedented expansion of fiscal spending. As the commodity price boom waned, and despite a large increase in the tax burden, the country has been experiencing difficulties in financing public recurrent spending, which also caused a collapse of public investment. Closing large infrastructure gaps will be key to lifting Argentina's low growth potential although the financing of that investment, public or private, in the context of low-cost recovery from consumers will be challenging.

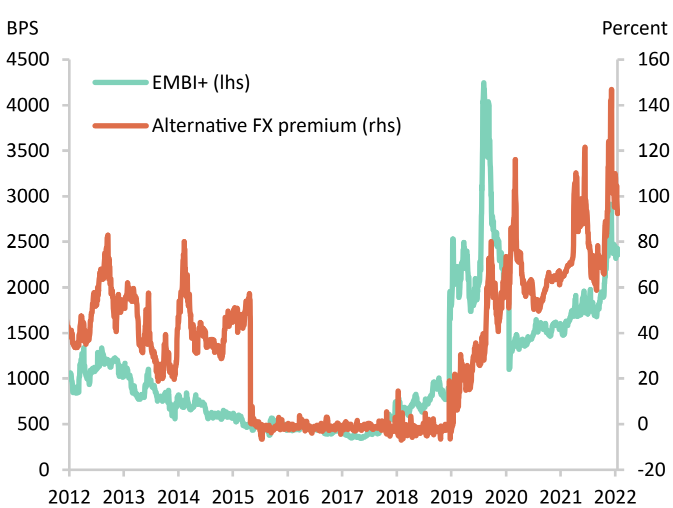
Several external shocks have lowered growth, while export diversification narrowed, and commodity dependence deepened. These shocks have been amplified by procyclical policies and by buffers too narrow to counterweight subsequent shocks. A strong and credible macro-fiscal policy program coupled with bold reforms to open the economy and incentivize private sector investment are needed to lead the economy beyond a cyclical recovery.

Recent developments

A broad-based cyclical expansion of economic activity continued into the first half of 2022. The end of the second quarter and the beginning of the third were marked by financial volatility, which have amplified macroeconomic imbalances.

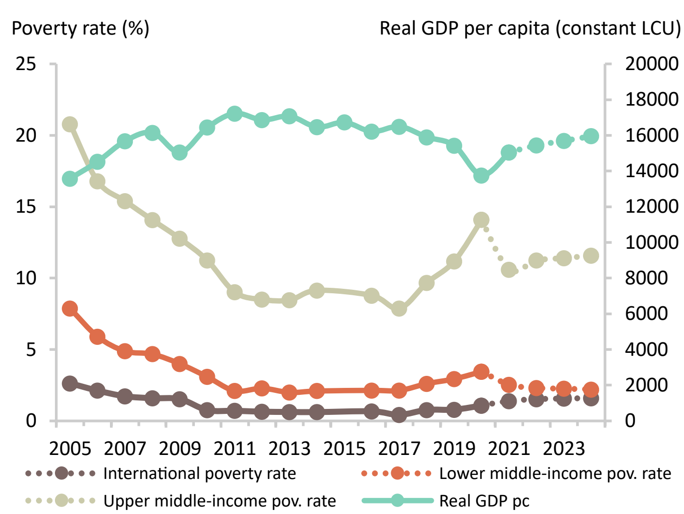
The gap between official and alternative exchange rates widened, driven by a renewed crisis in confidence regarding the rollover of domestic debt as maturities approached. A run against the peso followed, impeding foreign reserve accumulation.

FIGURE 1 Argentina / Sovereign risk premium and alternative exchange rate premium



Source: World Bank staff calculations based on Bloomberg and Ambito.

FIGURE 2 Argentina / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

Sovereign risk premium spiked to 2,905 bps by end-July, abating in August to above its post-debt restructuring level, following the appointment of the new Minister of Economy. A temporary subsidy scheme to incentivize soy exports to liquidate their stocks are now contributing to reserve accumulation. Net foreign reserves are estimated at US$3.5bn as of end-September, less than a month of imports.

Annual inflation accelerated to above 78 percent in August, the highest since 1992. The Central Bank reacted to inflation acceleration by raising the reference interest rate by 2,600 bps between June and September. However, moving to a positive real interest rate policy is proving challenging.

Fiscal policy remained expansionary in the first half of 2022, widening the fiscal deficit, while arrears have built up. The annual primary deficit climbed from 2.5 percent of GDP in the third quarter of 2021 to an estimated 3.3 percent of GDP in July 2022, driven by a broad-based real expansion of public spending. The Government stepped-up income support for the population most at risk (informal workers, beneficiaries of social transfers, and pensioners receiving the minimum pension) in May and June to mitigate the negative impact of inflation, reducing public investment and operating expenses in similar magnitude. The trade surplus turned into a deficit by the end of the first semester, owing to the large increase in the value of energy imports. By contrast, the non-energy trade surplus decreased only slightly in the past 12 months, as price increases have been offset by declines in export volumes.

Outlook

GDP is projected to grow by 4.2 percent in 2022 driven by consumption and public investment. Domestic imbalances and import restrictions will reduce the pace of the recovery for the remaining part of 2022 and limit growth for 2023 and 2024. In 2022, the poverty rate is projected at 11.2 percent of the population under the international poverty line of $6.85 per day, or [38 percent] using Argentinian poverty line.

GDP growth is projected to decelerate to 2 percent in 2023 and 2024, reaching its previous 2017 cyclical peak by mid-2023. Domestic demand will be constrained by a high inflationary environment. On the supply side, agricultural output in the 2022/23 agricultural cycle will be affected by current adverse climatic conditions. Lack of precipitation has already impacted wheat production and could also hit soy and corn. Gradual fiscal consolidation, including the projected reduction in energy subsidies, will help bring down deficit monetization. The current account will remain balanced. On the one hand, the expansion of economic activity will require growing imports. On the other hand, terms of trade are expected to improve on the margin while investments in energy efficiency will allow for a reduction in energy imports. Poverty reduction in the medium term will be challenging given slow growth and high inflation.

Downside risks remain sizeable. Given the low levels of reserves, a disorderly correction in the value of the peso could further fuel inflation. The possibility of social tensions cannot be excluded, given high poverty and inflation. A prolonged war in Ukraine could further increase inflation in developed economies (including Argentina), forcing additional interest rate hikes, which can have a negative impact on emerging markets. Moreover, more adverse climate shocks could further deteriorate agricultural production in 2023 and 2024. On the upside, delivering planned investments for the full operability of the gas pipeline "Nestor Kirchner" would allow for considerable savings in energy imports and efficiency, and for improvements in the current and fiscal accounts.

TABLE 2 Argentina / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	-2.0	-9.9	10.4	4.2	2.0	2.0
Private Consumption	-6.1	-13.7	10.0	6.6	2.0	2.1
Government Consumption	-6.4	-1.9	7.1	4.4	1.9	1.6
Gross Fixed Capital Investment	-16.0	-13.0	33.4	8.2	3.0	3.1
Exports, Goods and Services	9.8	-17.7	9.2	4.9	5.6	5.1
Imports, Goods and Services	-18.7	-18.5	22.0	15.8	5.1	5.4
Real GDP growth, at constant factor prices	-1.6	-10.0	10.0	4.2	2.0	2.0
Agriculture	21.4	-7.7	0.7	0.5	2.5	2.1
Industry	-4.7	-9.3	15.3	3.5	2.5	2.3
Services	-3.1	-10.6	9.0	5.0	1.8	1.8
Current Account Balance (% of GDP)	-0.9	0.8	1.4	-0.1	-0.2	-0.3
Net Foreign Direct Investment Inflow (% of GDP)	1.1	0.9	1.1	1.0	1.1	1.2
Fiscal Balance (% of GDP)[a]	-4.8	-8.4	-4.2	-4.2	-3.9	-3.3
Debt (% of GDP)[a]	99.6	107.5	87.9	78.0	75.8	73.2
Primary Balance (% of GDP)[a]	-0.5	-5.9	-2.3	-2.3	-1.9	-0.9
International poverty rate ($2.15 in 2017 PPP)[b,c]	0.8	1.1	1.0	1.1	1.1	1.2
Lower middle-income poverty rate ($3.65 in 2017 PPP)[b,c]	2.9	3.5	2.5	2.3	2.3	2.2
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	11.2	14.1	10.6	11.2	11.4	11.6
GHG emissions growth (mtCO2e)	-1.5	-1.6	5.0	2.2	1.4	1.6
Energy related GHG emissions (% of total)	41.2	40.0	42.2	42.9	43.2	43.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Fiscal data refer to the general government.
b/ Calculations based on SEDLAC harmonization, using 2011-EPHC-S2, 2012-EPHC-S2, and 2020-EPHC-S2. Actual data: 2020. Nowcast: 2021. Forecasts are from 2022 to 2024.
c/ Projection using annualized elasticity (2011-2012) with pass-through = 0.7 based on GDP per capita in constant LCU.