Argentina

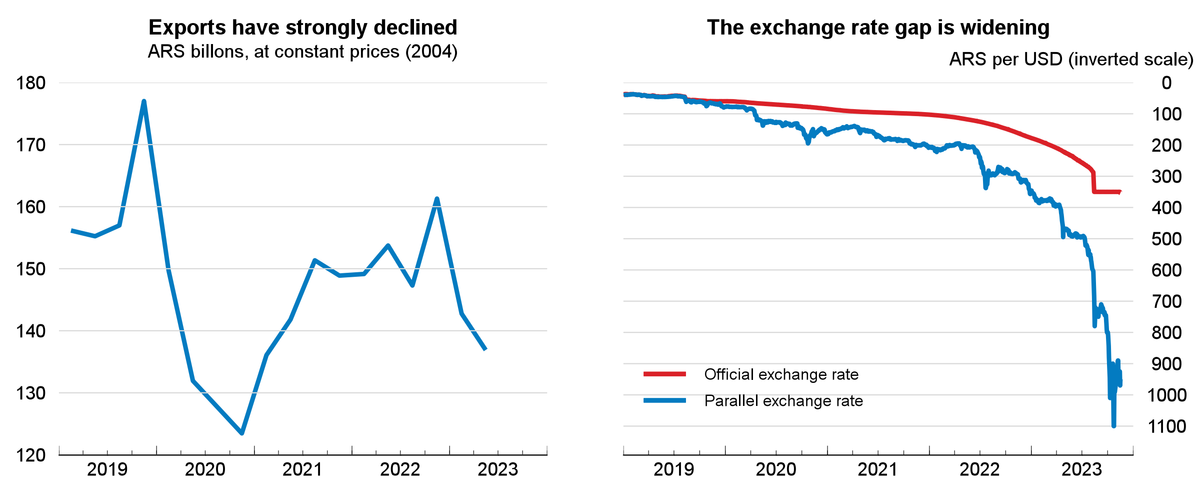
GDP is projected to contract by 1.8% in 2023 and by 1.3% in 2024, before rising by 1.9% in 2025. Tight capital controls, rising inflation and high policy uncertainty will further constrain consumption and investment in the short term. Exports are set to recover in 2024, following a severe drought in 2023. Inflation has surpassed 100% and will continue to rise in the near term due to expectations of a currency devaluation.

Substantial fiscal consolidation will be needed to resolve severe macroeconomic imbalances. A recently-enacted fiscal stimulus package will further worsen fiscal outcomes and make it difficult to attain short-term targets. Stabilising the macroeconomic situation and raising female labour force participation would lay the basis for higher medium-term growth and for reversing the rise in poverty.

Extremely high inflation is weighing on growth

Output contracted in the second quarter of 2023, mainly driven by a devasting drought that reduced exports. Following a recovery of the agricultural sector in the third quarter, short-term indicators point to a further contraction from the fourth quarter of 2023, mainly due to heightened policy uncertainty and the impact of the high inflation on purchasing power. A still-resilient labour market, with unemployment at 6.2% in the second quarter of 2023, has supported consumer confidence so far. However, informality has increased, approaching 40% of the labour force. Headline inflation rose to 143% in the year to October, the highest inflation rate since the 1991 hyperinflation era.

Argentina



Note: Exports are seasonally adjusted.
Source: Instituto Nacional de Estadísticas y Censos; OECD Exchange rate database; Central Bank of Argentina; and Ambito.com.

StatLink https://stat.link/p78vul

Argentina: Demand, output and prices

Argentina	2020	2021	2022	2023	2024	2025
	Current prices ARS billion	Percentage changes, volume (2004 prices)				
GDP at market prices	27 209.8	10.7	5.0	-1.8	-1.3	1.9
Private consumption	17 878.1	10.4	9.7	0.8	-1.5	1.7
Government consumption	4 591.1	6.3	1.9	3.5	0.0	0.2
Gross fixed capital formation	3 886.2	33.8	11.1	0.7	-0.7	2.2
Final domestic demand	26 355.5	13.0	8.6	1.2	-1.1	1.5
Stockbuilding[1]	36.1	-0.3	-1.0	0.7	-0.2	0.0
Total domestic demand	26 391.6	13.3	7.8	1.8	-1.8	1.6
Exports of goods and services	4 518.3	8.5	5.8	-8.2	4.8	4.1
Imports of goods and services	3 700.1	20.4	17.9	7.1	1.0	2.5
Net exports[1]	818.2	-1.4	-1.6	-2.4	0.4	0.1
Memorandum items						
GDP deflator	_	53.8	69.5	125.4	140.6	52.6
Consumer price index	_	48.0	72.4	124.0	157.1	62.4
Current account balance (% of GDP)	_	1.3	-0.5	-3.2	-1.3	-0.8

1. Contributions to changes in real GDP, actual amount in the first column.
Source: OECD Economic Outlook 114 database.

StatLink https://stat.link/219elg

The recent increase in oil and gas production in the Vaca Muerta field could turn Argentina into a net energy exporter in the short term. Commodity sectors will attract foreign direct investment, although capital inflows remain constrained by tight capital controls, multiple exchange rates and policy uncertainty. For the moment, funding provided by the International Monetary Fund (IMF) will be the main source of external financing. Depleted foreign exchange reserves are increasingly putting pressure on the public finances, the external account, and the overall economy.

Tight macroeconomic policies will be required in the near term

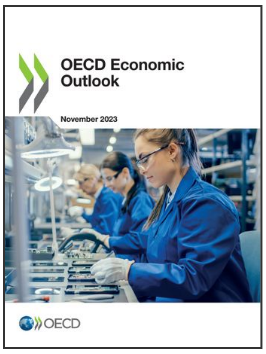
The new government from December 2023 will need to consolidate public finances to rebalance the economy. A recently-launched fiscal support plan contained a combination of subsidies for workers, further income tax exemptions and credit relief, in an effort to protect households against high inflation. This temporary fiscal expansion will further weaken public finances, already strained by weak export tax revenues. The central bank raised the monetary policy rate twice in a row from 97% to 133% in response to the currency devaluation in the wake of the August primary elections. Given the recent acceleration of inflation, the policy rate is assumed to remain high until 2024, when it will start to fall gradually. Continuous and decisive reductions in monetary financing will be key to stabilise the economy, and this will also require further fiscal restraint.

Growth will contract in 2023 and 2024 in an uncertain environment

The economy will contract by 1.8% in 2023 and by 1.3% in 2024 and then gradually recover to growth of 1.9% in 2025. High inflation, fiscal consolidation and tight financial conditions will all weigh on consumption during 2024, while low confidence levels and heightened political uncertainty will continue to hold back investment. A gradual upturn is projected for 2025 as the macroeconomic situation improves and exports recover. Inflation is projected to remain high in 2023 and 2024, driven by high currency devaluation expectations and the gradual removal of many currency controls, but could subside in 2025. Both short-and medium-term risks are tilted to the downside. Low foreign reserves, tight currency restrictions and large volumes of outstanding central-bank bonds, in a context of elevated interest rates, could lead to a further currency devaluation, spiralling inflation, and solvency concerns. Moreover, the need to reduce public spending relatively quickly amid mounting social pressures could lead to political instability. On the upside, setting up a solid stabilisation plan could lead to stronger confidence in economic policymaking, reduce pressure on the exchange rate and attract foreign capital.

Supporting more sustainable growth

Given the ageing population, long-term growth will hinge on productivity gains. These could be bolstered by stronger competition and less cumbersome regulations. Female labour force participation is well below developed countries and raising it would allow stronger per-capita income growth. Enhancing social protection through more effective social spending could help to reduce poverty and inequalities, as poverty affects more than 40% of the population. In light of high labour informality, improving incentives for formal job creation through lower non-wage labour costs and labour market reforms would improve equity and also strengthen productivity.



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