ARGENTINA

Table 1	2020
Population, million	45.4
GDP, current US$ billion	404.4
GDP per capita, current US$	8917.6
International poverty rate ($1.9)[a]	1.5
Lower middle-income poverty rate ($3.2)[a]	4.9
Upper middle-income poverty rate ($5.5)[a]	14.4
Gini index[a]	42.9
School enrollment, primary (% gross)[b]	109.7
Life expectancy at birth, years[b]	76.5

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2019), 2011 PPPs.
(b) Most recent WDI value (2018).

In 2020 Argentina experienced a major contraction as COVID-19 severely impacted an already fragile economy. GDP is projected to rebound by 6.4 percent in 2021 as ample idle capacity is progressively used, reducing upper middle-income poverty rate to 15.8 percent, from its 2020 peak of 18.4 percent. The implementation of a sound macro-stabilization plan to restore fiscal sustainability and reduce inflation would strengthen the recovery, setting the basis for strong job creation and poverty alleviation.

Key conditions and challenges

The Argentinian economy has struggled to grow since the end of the commodities super cycle. In the absence of measures to contain spending, fiscal and external imbalances progressively built up, leading to high and volatile inflation, hurting investment, growth and livelihoods. GDP growth averaged 1.4 percent in the last decade, in contrast to a 3 percent average in 1993-2009. Labor market outcomes have deteriorated as informality increased and real incomes fell, keeping poverty incidence high.

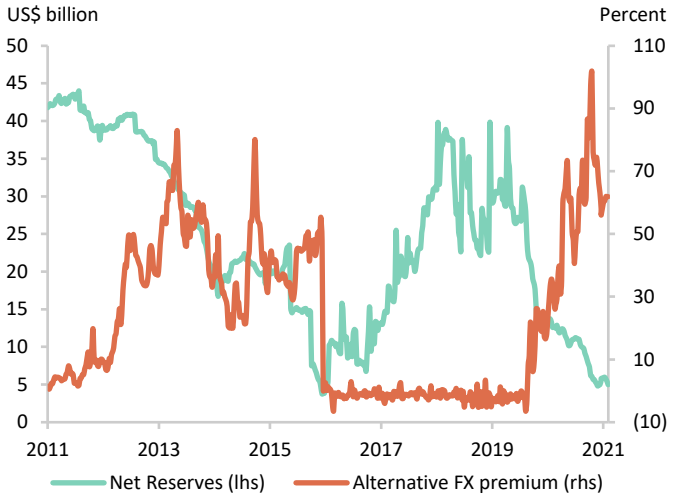
The COVID-19 pandemic broke out a two-year recession. In April 2020, GDP registered the largest contraction ever recorded, and as a consequence employment fell sharply, and firm closures increased markedly. Spending for emergency measures and lower revenues resulted in a historically large deficit. Despite mitigating effects of increased spending in social programs, the proportion of people under the national poverty line reached over 40 percent. The crisis and loss of market access led to a full monetization of the deficit, exacerbating macroeconomic imbalances. As economic activity resumed, this monetary overhang led to increased volatility in exchange rates and an upsurge in inflation.

The adoption of a credible macro-stabilization and growth plan would underpin the strength of the recovery, which could however be delayed by an adverse evolution of the pandemic, notably the re-introduction of containment measures, depending on progress on vaccinations. Beyond overcoming the COVID-19 crisis, the implementation of a sound macroeconomic program remains a fundamental priority for bringing down inflation, restoring confidence, and putting the economy on a sustainable path. Over the medium term, the recent debt swap with private creditors, as designed – reprofiling of debt service obligations and only minor cuts in principal – calls for the swift implementation of reforms to ensure fiscal sustainability and regain access to capital markets. Delays in reform implementation are a major source of risk.

Recent developments

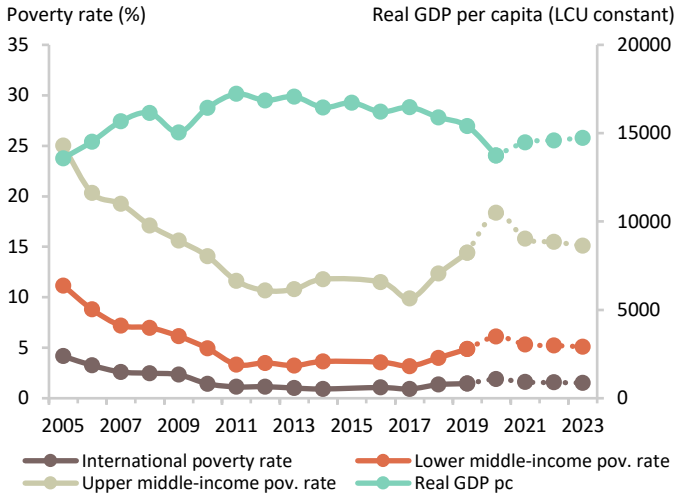
The recovery started in 2020Q4, as lockdown measures have progressively been lifted. The recovery has been heterogenous across sectors and populations groups. The hotels and restaurants sector fell by 50 percent in 2020, transportation by 18 percent, while manufacturing, agriculture, retail and construction ended 2020 almost at or above pre-COVID levels. The negative impact of the crisis on labor market performance has been more pronounced than on economic activity, as household income continued to fall across the distribution, despite mitigating effects of the increased spending in social programs. More than 20,000 firms closed during 2020, 1.4 million people are currently

FIGURE 1 Argentina / Net international reserves and exchange rate premium



Source: WB Staff Calculations based on Central Bank.

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



Source: World Bank. Notes: see Table 2.

unemployed, and despite recovery of economic activity, rates of unemployment have not significantly decreased yet among women and youth. The median labor income has remained below the representative poverty line, reflecting a high probability that wages are not sufficient to lift workers above the poverty line.

After having decelerated to 36 percent in 2020 owing to the lockdown, inflation is accelerating alongside economic recovery, in spite of tight price controls (supermarkets, fuel, housing rentals, transport and energy rates), which dampen the pace and strength of the recovery. Through a series of additional interventions and controls, the authorities have recently managed to stabilize the gap between official and parallel foreign exchange markets, though at historically high levels of around 70 percent. The large foreign exchange gap continues to generate incentives to postpone exports and anticipate imports, thus deteriorating the trade balance and impairing the ability of the Central Bank to substantially rebuild foreign exchange reserves from very low levels. Net reserves fell US$8bn during 2020 and by mid-February were estimated at US$4.9bn (1.6 percent of GDP).

Outlook

GDP is projected to rebound by 6.4 percent in 2021 given the strong 2020-Q4 carry over effect (about 5.5 percent) and as ample idle capacity is progressively used. Private consumption and investment will only moderately pick up, following their three-year contraction. Going forward, price and capital controls risk dampening investment and the renewal of capital stock. Thus, in the absence of macro stabilization and structural reforms to facilitate business entry and exit and access to credit, the rebound is expected to be modest. GDP is projected to reach its end 2019 level only in 2023. The fact that by end-2019 the GDP level was 8 percentage points below its peak in late 2017 illustrates the long-lasting effects of the prolonged crisis.

Poverty rates are expected to decline modestly as the economic recovery materializes. In 2021, it is projected that 15.8 percent of the population will be considered poor under the international poverty line of $5.5 per day. A stronger labor market performance is needed to reverse recent poverty increases.

High commodity prices are expected to cushion the negative impact of "La Niña" on agricultural output, leading to substantial windfall in foreign exchange, which would support the current account surplus and government revenues in 2021. The fading out of COVID-19 stimulus spending together with increases in revenue collection as the economy rebounds will also support the reduction of the fiscal deficit. A partial Central Bank monetization of overall fiscal needs is set to continue in 2021, in the absence of access to markets, putting pressure on monetary policy, and therefore on inflation and external stability. An agreement on a new IMF program that restores fiscal sustainability and strengthens reforms for long term growth would help restore confidence, reduce sovereign risk, facilitate a return to credit markets and incentivize investment.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	-2.5	-2.2	-10.0	6.4	1.7	1.9
Private Consumption	-2.4	-6.4	-11.2	7.6	2.1	2.0
Government Consumption	-3.3	-1.6	-2.7	1.2	0.1	0.0
Gross Fixed Capital Investment	-5.7	-15.9	-20.9	10.9	4.7	6.2
Exports, Goods and Services	-0.7	9.4	-11.1	5.2	2.8	3.1
Imports, Goods and Services	-4.7	-18.7	-18.2	8.9	5.5	5.6
Real GDP growth, at constant factor prices	-2.6	-1.8	-10.0	6.4	1.7	1.9
Agriculture	-14.3	19.7	-3.0	2.3	1.1	1.1
Industry	-3.1	-3.1	-14.0	5.1	1.5	1.5
Services	-0.6	-3.8	-9.2	7.7	1.8	2.1
Inflation (Private Consumption Deflator)	38.0	56.6	42.0			
Current Account Balance (% of GDP)	-5.3	-0.5	1.4	1.1	0.5	-0.4
Net Foreign Direct Investment (% of GDP)	1.9	1.1	0.7	1.1	1.5	1.7
Fiscal Balance (% of GDP)	-5.2	-4.4	-9.2			
Debt (% of GDP)	94.8	100.1	105.6			
Primary Balance (% of GDP)	-2.2	-0.6	-6.6			
International poverty rate ($1.9 in 2011 PPP)[a,b]	1.4	1.5	1.9	1.6	1.6	1.5
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	4.0	4.9	6.1	5.3	5.2	5.1
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	12.3	14.4	18.4	15.8	15.5	15.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.

(a) Calculations based on SEDLAC harmonization, using 2012-EPHC-S2, 2018-EPHC-S2, and 2019-EPHC-S2.Actual data: 2019. Nowcast: 2020. Forecast are from 2021to 2023.
(b) Projection using annualized elasticity (2012-2018) with pass-through = 1based on GDP per capita in constant LCU.