ARGENTINA

Economic growth is projected to rebound strongly in 2017 and 2018 as the impact of recent reforms and changes in economic policy start to gain traction. Inflation remains high but it will gradually decrease towards the central bank's target owing to widening economic slack and as the effect of administrative price increases and past currency depreciation wear off. Stronger growth will reduce unemployment from its current rate of 8.5%.

Rebuilding confidence in macroeconomic policies is a top priority. The reform of the national statistics agency has improved its credibility and enabled the central bank to introduce inflation targeting. Interest rates were increased sharply early in 2016 to contain inflationary and exchange rate pressures, but are slowly coming down as these tensions fade. Monetary policy remains restrictive, but it should loosen progressively as inflation declines.

The government has limited fiscal space to boost economic growth through fiscal expansion. The budget deficit remains large and the cost of borrowing, although decreasing, is still very high. Indeed, the envisaged fiscal consolidation is welcome, but should be gradual to reduce the associated social costs. The commitment to inclusive growth, including through further improvements in education and well-targeted social transfers, is welcome. There is also room to reduce fiscal pressure on firms by making the tax system more efficient. Shifting government spending towards public investment and increasing competition by reducing barriers to trade, investment and entrepreneurship would raise productivity and inclusive growth.

The economy is still in recession

Activity continues to contract, driven in part by a slowdown in private consumption, due to a decrease in real wages and a deteriorating labour market. Investment has been

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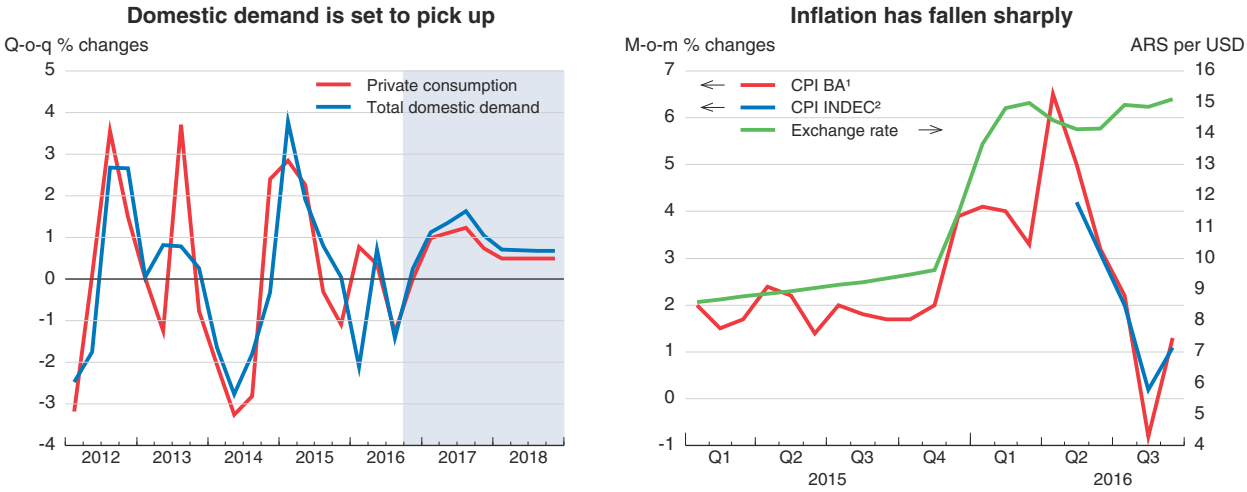

1. Consumer price index produced by the Dirección General de Estadísticas y Censos de la Ciudad de Buenos Aires.
2. New consumer price index for the city of Buenos Aires, produced by the Instituto Nacional de Estadísticas y Censos (INDEC).

Source: OECD Economic Outlook 100 database; INDEC, Gobierno de la Ciudad de Buenos Aires and Central Bank.

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Argentina: **Demand, output and prices**

	2013	2014	2015	2016	2017	2018
	Current prices ARS billion	Percentage changes, volume (2004 prices)				
GDP at market prices	3 348.3	-2.5	2.5	-1.7	2.9	3.4
Private consumption	2 209.5	-4.4	3.6	0.0	2.1	2.7
Government consumption	562.7	2.9	6.6	-0.8	1.2	1.7
Gross fixed capital formation	545.4	-6.8	4.2	-3.4	7.5	6.7
Final domestic demand	3 317.6	-3.5	4.2	-0.7	2.7	3.1
Stockbuilding[1]	34.0	0.0	-0.3	-0.1	0.2	0.0
Total domestic demand	3 351.6	-3.9	3.7	-1.3	2.9	3.7
Exports of goods and services	489.4	-7.0	-0.6	4.7	3.1	4.8
Imports of goods and services	492.8	-11.5	5.6	4.9	3.1	5.8
Net exports[1]	- 3.3	0.7	-0.9	-0.1	0.0	-0.2
Memorandum items						
GDP deflator	_	40.3	24.5	38.9	20.7	15.5
Current account balance[2]	_	-1.4	-2.5	-2.5	-2.7	-2.9

1. Contributions to changes in real GDP, actual amount in the first column.
2. As a percentage of GDP.
Source: OECD Economic Outlook 100 database.

StatLink http://dx.doi.org/10.1787/888933439347

slow, despite the significant improvement in business confidence due to the reforms introduced by the government. The sharp contraction is also a result of weakened external demand and lower global prices of agricultural commodities. In particular, the deep recession in Brazil has had a strong impact on exports, particularly in the automotive industry. As a result of the protracted recession that started in 2015, the unemployment rate is above 9% and a third of the population is below the poverty line.

Macroeconomic policies are regaining credibility

The government is moving forward with an extensive package of reforms to unwind the pervasive macroeconomic imbalances that have built up. Measures include unifying the exchange rate, normalising relations with foreign creditors, realigning utility prices closer to cost, removing distortions on trade and capital mobility, and improving transparency and governance, in particular of the national statistics agency.

Achieving strong, sustained, and equitable growth will require deploying monetary policy to steadily bring down inflation, and reducing fiscal imbalances. The central bank has formally adopted an inflation-targeting regime to bring inflation to single digits in the medium term. Monetary policy will remain restrictive to anchor expectations, but should loosen progressively as inflation declines. The government has also announced a gradual fiscal consolidation plan. This is welcome, as a too drastic reduction of the fiscal deficit could threaten the already weak economy.

Progress on a comprehensive tax reform, lowering trade barriers and reducing administrative burdens should spur competition and accelerate the recovery significantly. Rebuilding the institutional framework for doing business and deepening structural reforms will contribute to the recovery, creating an environment more conducive to private investment, more and better jobs, and a steady improvement in living standards. The

commitment to inclusive growth, including through further improvements in education, creating more opportunities for women, and well-targeted social transfers, is welcome to reduce the high poverty level.

Growth is expected to rebound sharply

Prospects have improved substantially and growth is expected to rebound strongly in 2017 and 2018. Disinflation will contribute to the economic recovery, as it will increase real wages and thus boost consumption. Investment is also expected to pick up, driven by strong capital inflows and improved business confidence. Finally, exports will benefit from the depreciation of the peso and stronger growth of trading partners, especially Brazil.

However, downside risks from an unfavourable external environment and domestic challenges may affect the outlook. Sustained inflationary pressures could require a tighter monetary policy that could delay the recovery. Moreover, sluggish world trade growth or a protracted and long recession in Brazil could significantly weaken growth. Also, uncertainties related to US monetary policy normalisation, or possible adverse developments in China, could increase global financial volatility, reducing capital inflows and constraining the pick-up in investment. Finally, a faster than projected recovery in Brazil and a capital inflow surge could boost exports and investment and, therefore, growth by more than projected.