

Argentina

Macroeconomic Overview



November 2008

Luis Felipe Gil Solis
Miguel Angel Toledano Herrera

- The outlook for next year is deteriorating rapidly, as falling commodity prices and declining confidence in the country's financial sustainability are likely to seriously dent economic growth. Adding to general risk aversion in the wake of the global financial crisis, the announced nationalization of private pension funds has alarmed markets and sent the currency and stock markets plummeting.
- However, after having been approved by the Lower House, the nationalization still has to be approved by the Senate.

Argentina: Main macroeconomic indicators

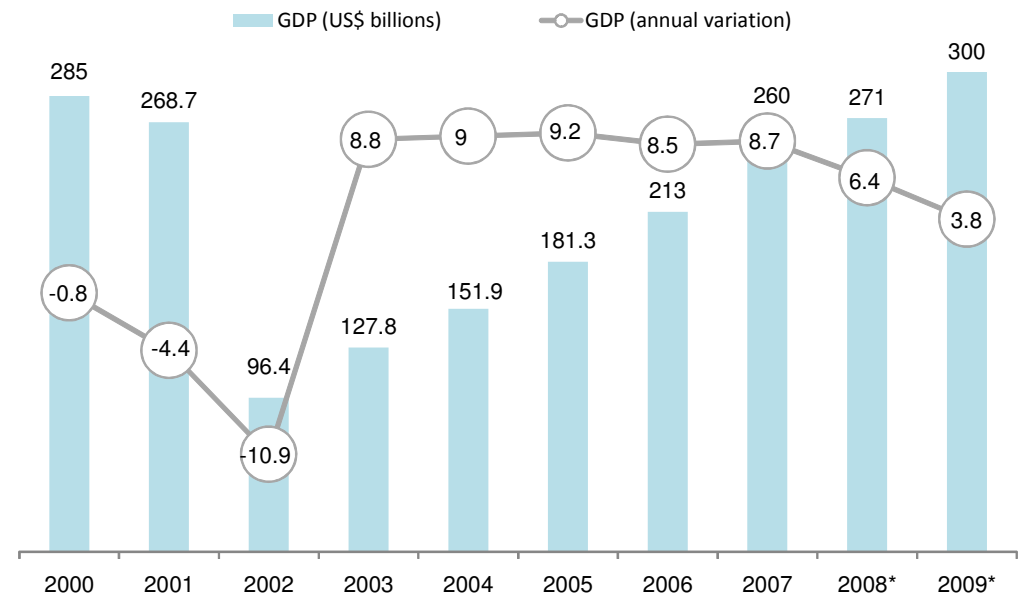
Main Indicators	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008*	2009*
Population (million)	35.7	36.1	36.6	37	37.5	37.9	38.4	38.9	39.3	39.7	40.2	40.6	41.1
GDP (US\$ billion)	292.9	298.9	283.3	285	268.7	96.4	127.8	151.9	181.3	213	260	271	300
GDP per cápita (US\$)	8,210	8,275	7,744	7,695	7,168	2,541	3,328	3,909	4,613	5,349	6,478	6,677	7,309
GDP (annual variation in %)	8.1	3.9	-3.4	-0.8	-4.4	-10.9	8.8	9	9.2	8.5	8.7	6.4	3.8
Consumption (annual variation in %)	8.1	3.5	-1.3	-0.5	-5.2	-12.8	7	8.3	8.5	7.4	8.8	6.9	4.2
Investment (annual variation in %)	17.7	6.5	-12.6	-6.8	-15.7	-36.4	38.2	34.4	22.7	18.2	13.6	12.2	6.2
Unemployment (%)	14.9	12.9	14.3	14.7	18.3	20.4	14.5	12.1	10.1	8.7	7.5	7.7	7.7
Fiscal Balance (% of GDP)	-1.5	-1.4	-2.6	-2.4	-3.5	-1.3	0.5	2.5	1.6	1.7	1	1.2	0.7
Consumer Prices (annual variation in %)	0.3	0.7	-1.8	-0.7	-1.5	41	3.7	6.1	12.3	9.8	8.5	9.3	12.1
Interest Rate (Deposits, 30-59 days)	7	7.6	10.2	11.1	6.6	23.9	3.9	2.5	3.8	3.7	10.3	12.3	13.5
Exchange Rate (vs. US\$, end of period)	1	1	1	1	1	3.36	2.93	2.98	3.03	3.07	3.15	3.19	3.38
Current Account Balance (% of GDP)	-4.1	-4.8	-4.2	-3.1	-1.4	9.1	6.4	2.1	2.9	3.8	2.7	2.2	1.1
Trade Balance (% of GDP)	-1.4	-1.7	-0.8	0.4	2.3	17.3	12.3	8	6.5	5.8	4.3	4.4	2.4
Exports (annual variation in %)	11	0	-11.8	12.9	1	-3.6	14.9	17.3	16.8	15	20.1	29.5	3.8
Imports (annual variation in %)	28.1	3.1	-18.8	-0.9	-19.6	-55.8	53.7	62.5	27.8	19	30.9	35.6	12.3
Int. Reserves (months of imports)	9.6	10.1	13.1	12.6	9.2	13.8	12.3	10.4	11.7	11.3	12.4	9.7	9
External Debt (% of GDP)	44.4	49.4	53.9	54.4	61.9	162.6	129.1	112.7	62.8	51.2	47.6	43	37

Source: Banco Central de Argentina, Instituto Nacional de Estadística y Censos de Argentina (INDEC)

Gross Domestic Product (GDP)

- The Gross Domestic Product (GDP) slowed down again during the third quarter, registering a growth rate of 6.3%. Thus, the Argentinean economy accumulated an expansion of 7.5% during the first nine months of the current year.
- The productive sector of goods rose 3.6%, boosted by the manufacturing sector (5.5%); meanwhile the services sector rose 7.5%, led by the transport sector.

GDP quarterly evolution
In US\$ billions and percentual variation



* Forecast

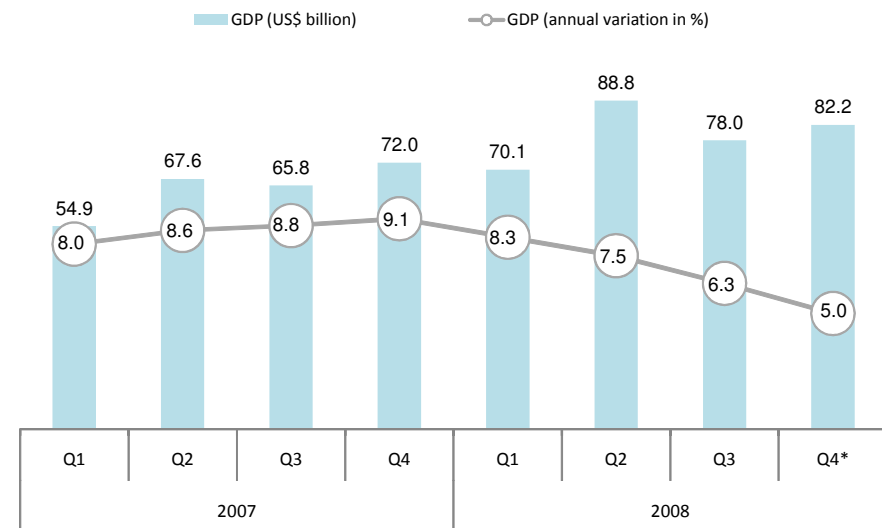
Source: Banco Central de Argentina, INDEC

Macroeconomic Overview

- In October, economic activity expanded 4.3% over the same month last year, according to the monthly indicator for economic activity (EMAE, Estimador Mensual de Actividad Económica). The result was well below the rates registered during the first semester of the current year, which indicates how the global crisis has affected the Argentinean economy.
- A month-on-month comparison corroborates the deceleration suggested by the annual figures, as the economy just expanded 0.1% over the previous month in seasonally adjusted terms.

GDP quarterly evolution

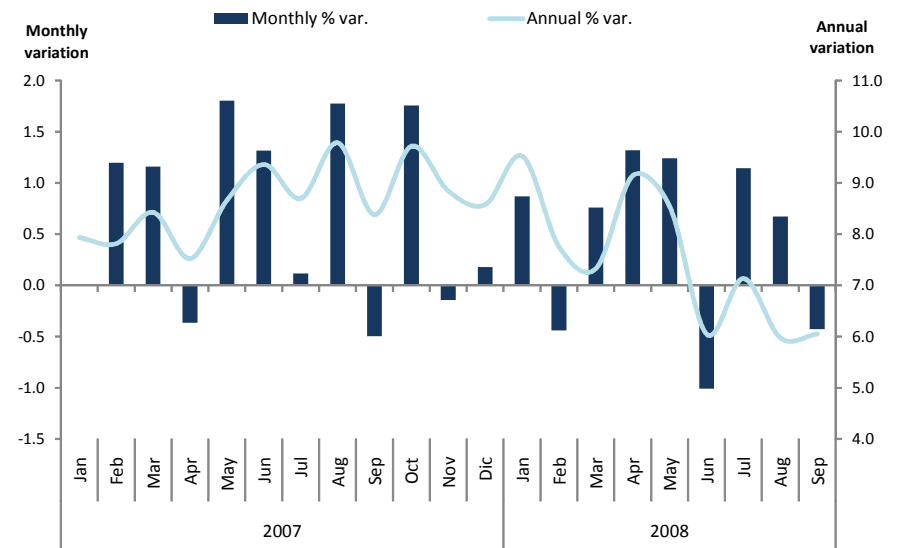
In US\$ billions and percentual variation



* Forecast
Source: INDEC

Economic activity

Seasonally adjusted

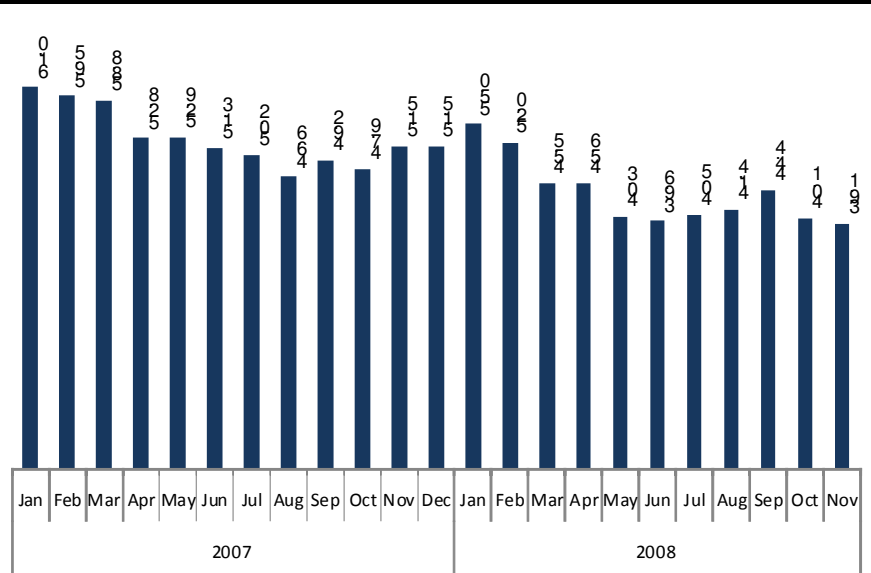


Source: INDEC

Consumer Price Index (CPI)

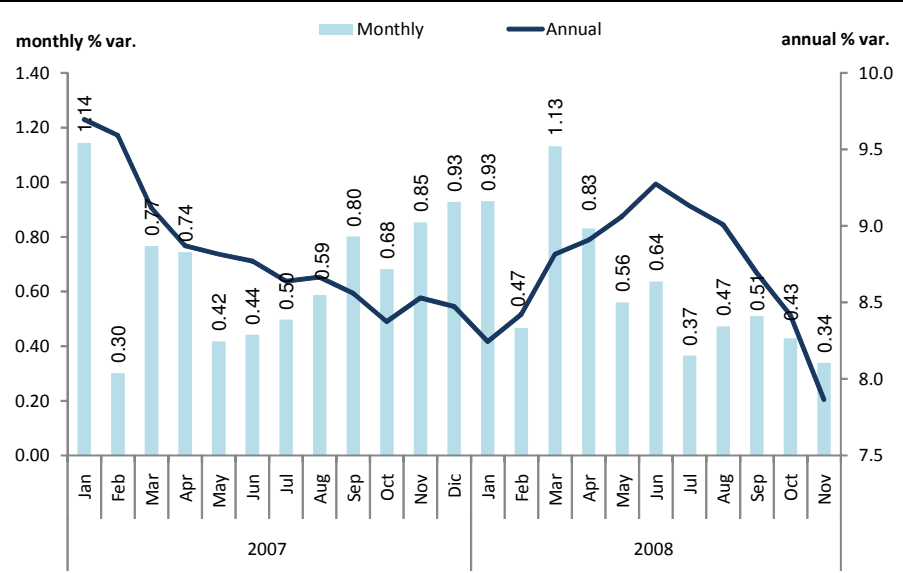
- In November, consumer prices rose 0.34% over the previous month, according to the consumer price index published by the INDEC, which led to an accumulated expansion of 6.88% during the January-November period.
- Higher prices for clothing (+1.0%) as well as for medical care and expenses for health (+0.7%) were the main drivers behind the price rise registered in November.
- Meanwhile, the consumer confidence index (ICC) published by the Universidad Torcuato di Tella (UTDT) fell from 40.1 in October to 39.1 in November. The result broke with the rising trend in consumer confidence observed between July and September and suggests that private consumption could weaken in the coming months.

Consumer confidence index evolution



Source: Universidad Torcuato di Tella

Consumer index price evolution
Monthly and annual percentage variation

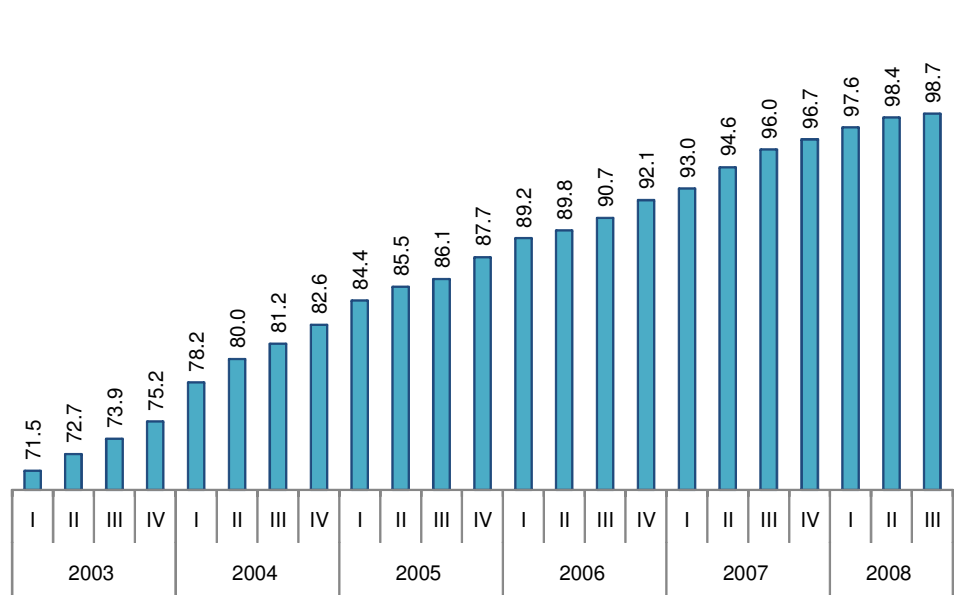


Source: INDEC

Unemployment

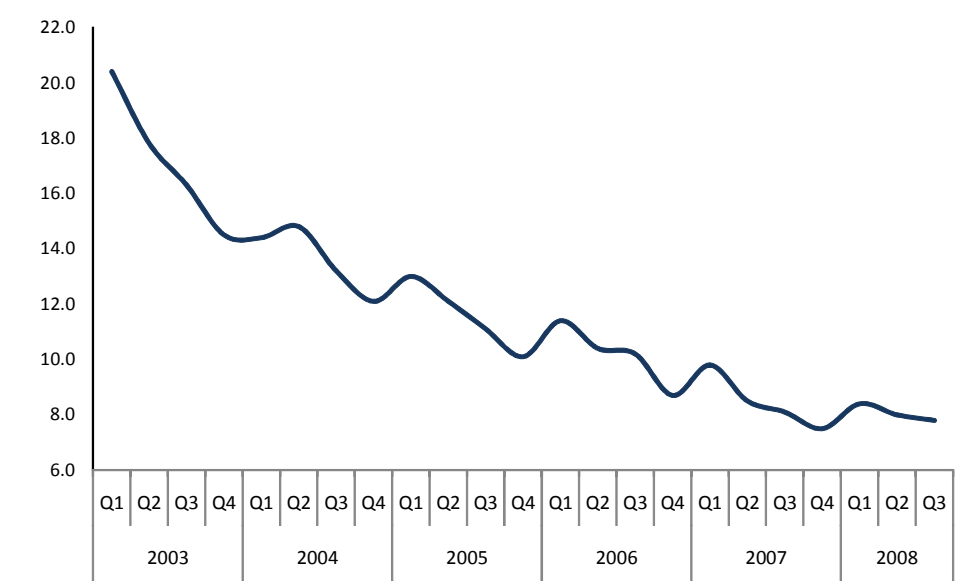
- During the third quarter, unemployment dropped to 7.8%, in comparison to the 8.1% registered on the period of the previous year.
- Meanwhile, the underemployment rate (which reflects the number of persons who work less than 35 hours per week but wish to work more) fell to 9.2% from the 9.3% registered during the third quarter of the previous year.
- Nevertheless, it is expected that during the upcoming months, the unemployment level may increase due the global financial crisis. In November, several layoffs and work stoppages were announced, especially on the automotive sector due to the production drop.

Manufacturing Industry employment index
base year 2007 = 100



Source: INDEC

Unemployment rate evolution
Annual percentual variation

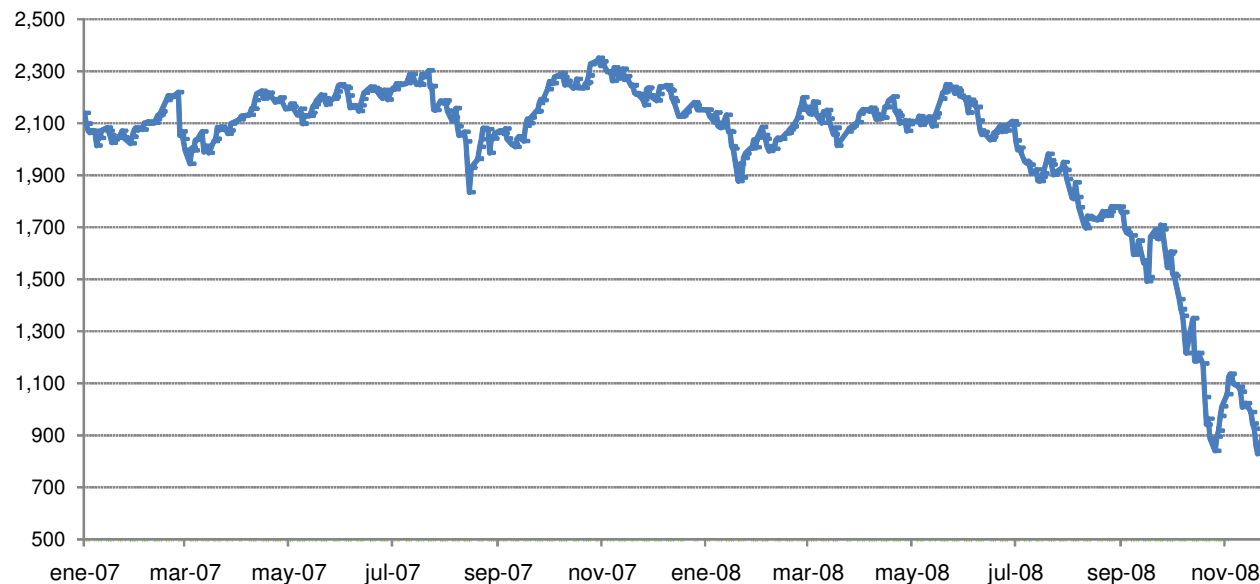


Source: INDEC

Stock index

- In November, the Merval index continued falling up to 993.99 points, 1.66% less as recorded the previous month. This downfall has been caused mainly by the global financial crisis that has affected all the stock markets.
- Meanwhile, trading at the Buenos Aires Stock Exchange accumulated some AR\$ 8.15 billion, while the daily average trading value considering the 19 sessions of the month, hardly rose to AR\$ 429 million, 71.6% less than the average for October.

Stock index evolution
Merval index



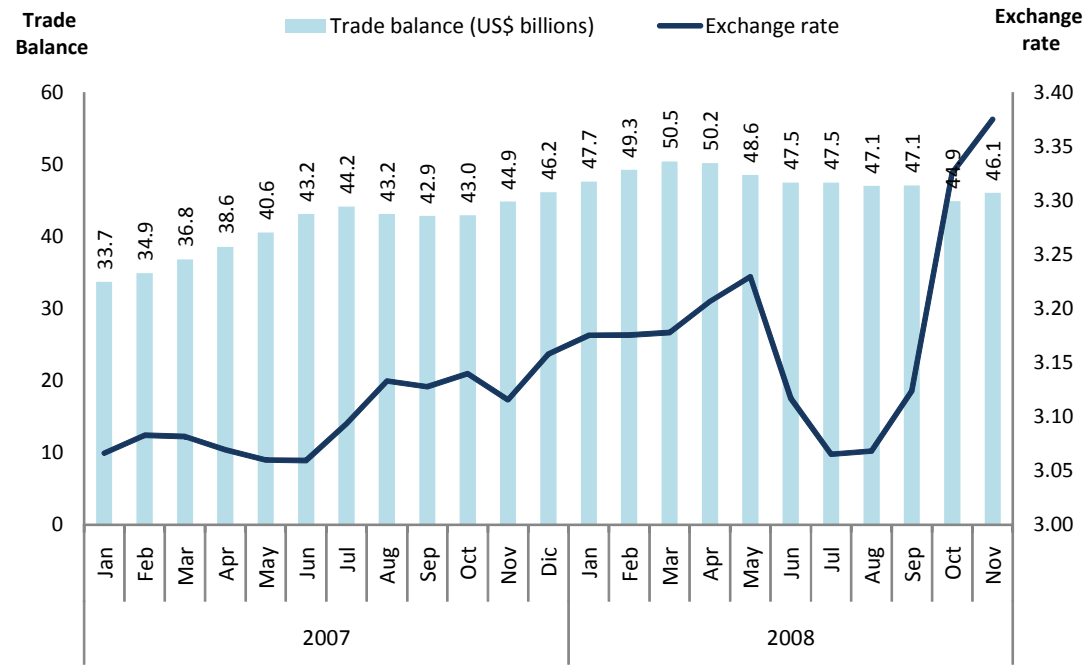
Source: Mercado de Valores de Buenos Aires

Exchange Rate

- In November, the Argentinean peso depreciated 1.5% (in nominal terms) over the previous month, reaching 3.38 pesos US dollar. This has been the lowest value of the Argentinean currency along the year.
- The rapid depreciation of the currency seen during the last months not only threatens to affect savings and discourage foreign investment, but will also fuel already high inflation, thus hampering prospects for private consumption.

Exchange rate evolution and trade balance

In US\$ billions and in pesos per US\$ dollar



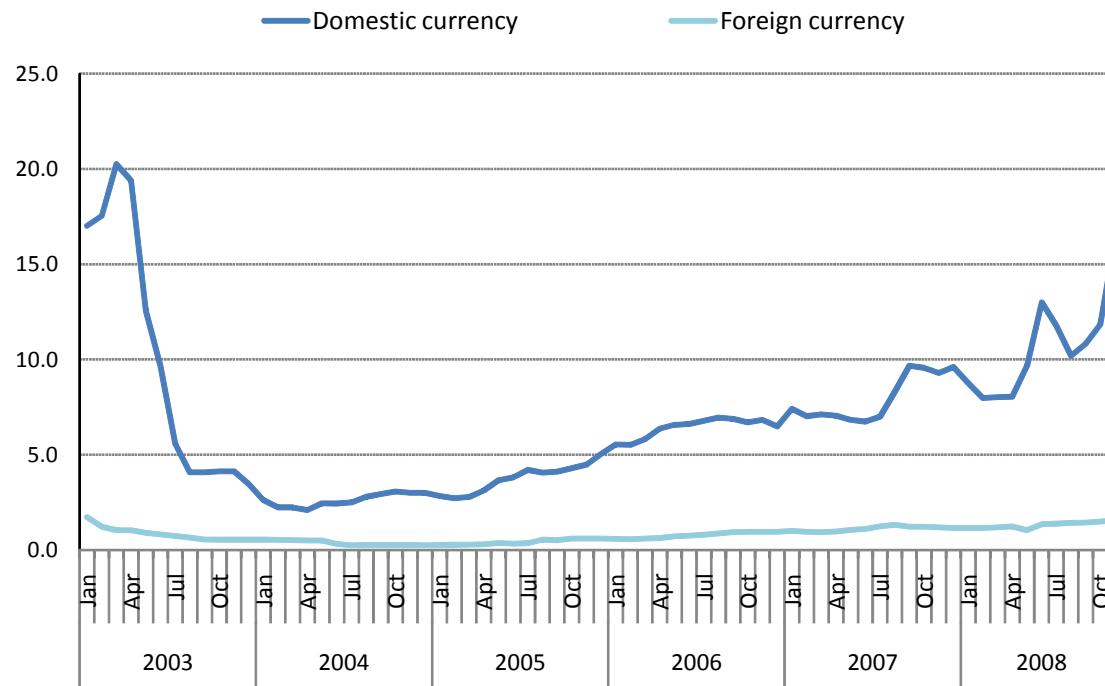
Source: Banco Central de Argentina

Interest Rate

- In November, the deposit rate for 30-59 days in domestic currency rose 4.5 basis points, from 11.9% to 16.3%. Meanwhile, in foreign currency rose 0.2 basis points, from 1.5% to 1.6%.

Interest rate evolution

Deposits 30 -59 days - Monthly rates (%)

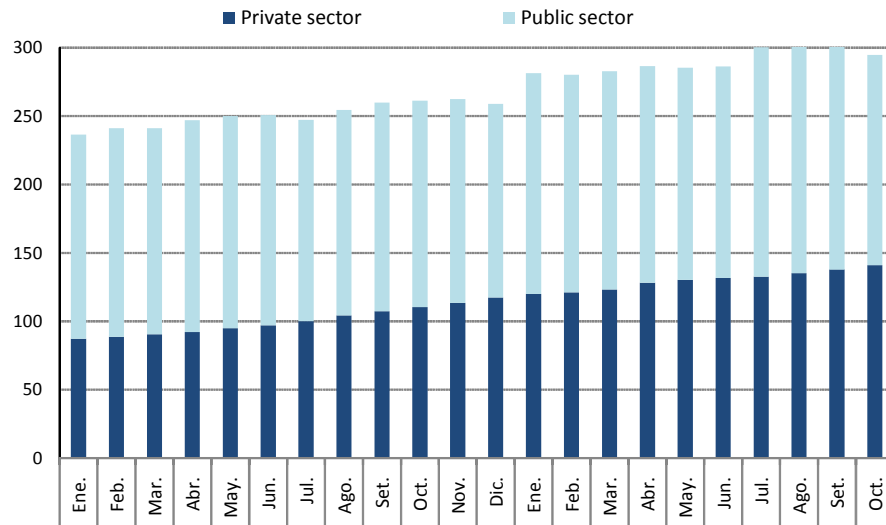


Source: Banco Central de Argentina

Internal Credit

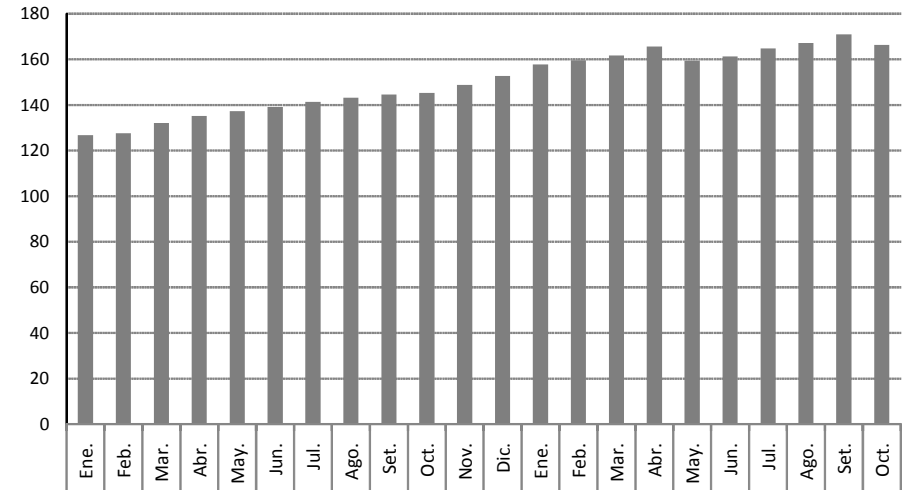
- The financial system evidence solidity, registering high liquidity despite the persistent demand of US dollars since August 2007.
- Credit to the private sector has registered a growing trend during the last years. In October, rose 27.8% (in annual terms) up to AR\$ 141.1 billion. By the other hand, credit to the public sector rose 1.7%, up to AR\$ 153.7 billion.

Credit evolution
Millions of pesos



Source: Banco Central de Argentina

Private sector deposits
Millions of pesos



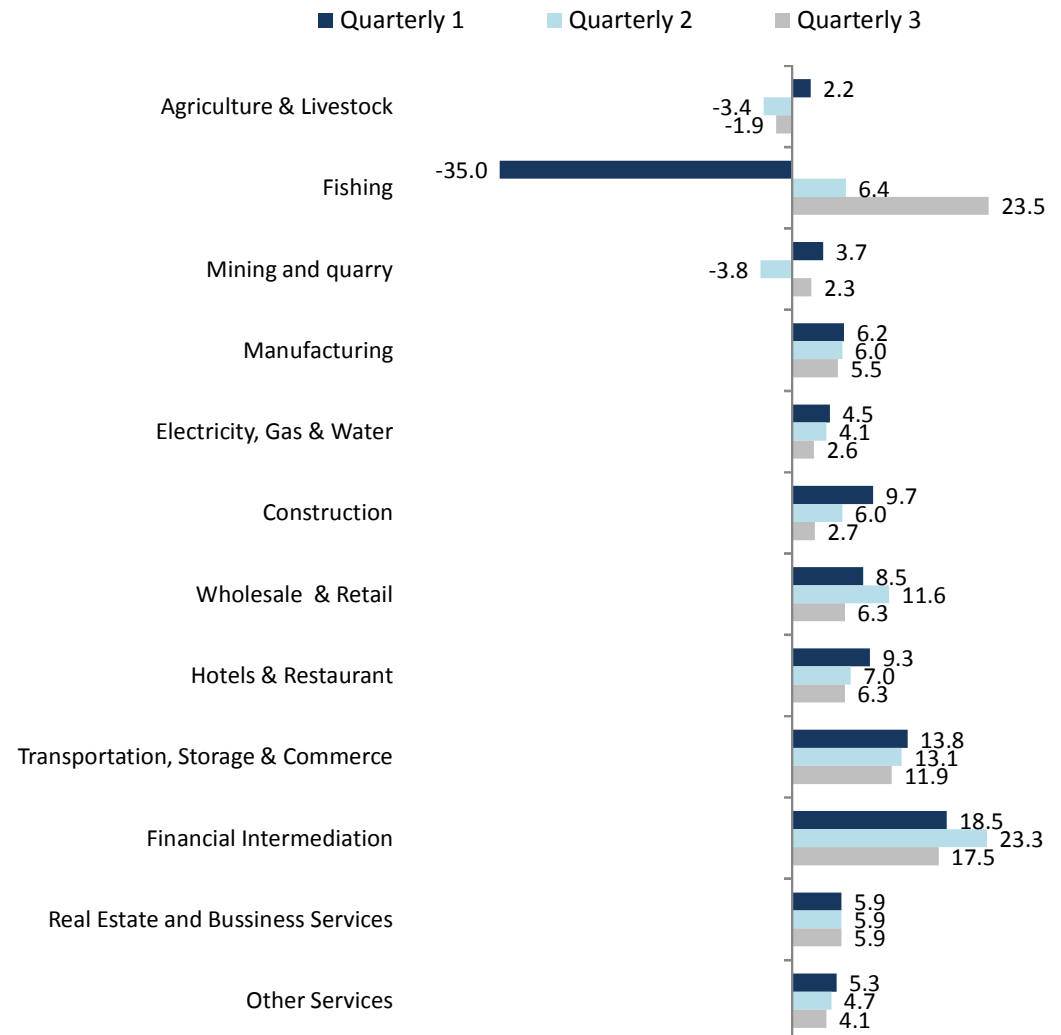
Source: Banco Central de Argentina

Production by sectors

- At the sector level, rises in fishing (23.5%), financial intermediation (17.5%) and transportation, storage & commerce were the main responsible for the economic growth during the third quarter.
- It is noteworthy that the agriculture & sector has shown a rapid drop along the year, accumulating a fall of 0.9% during the first nine months. For the next year, it is expected that lower international and lower harvest of wheat and corn, due to the lower seeding of both products during 2008, will affect even more the sector.

GDP by sector of origin - 2008

Percentual annual variation

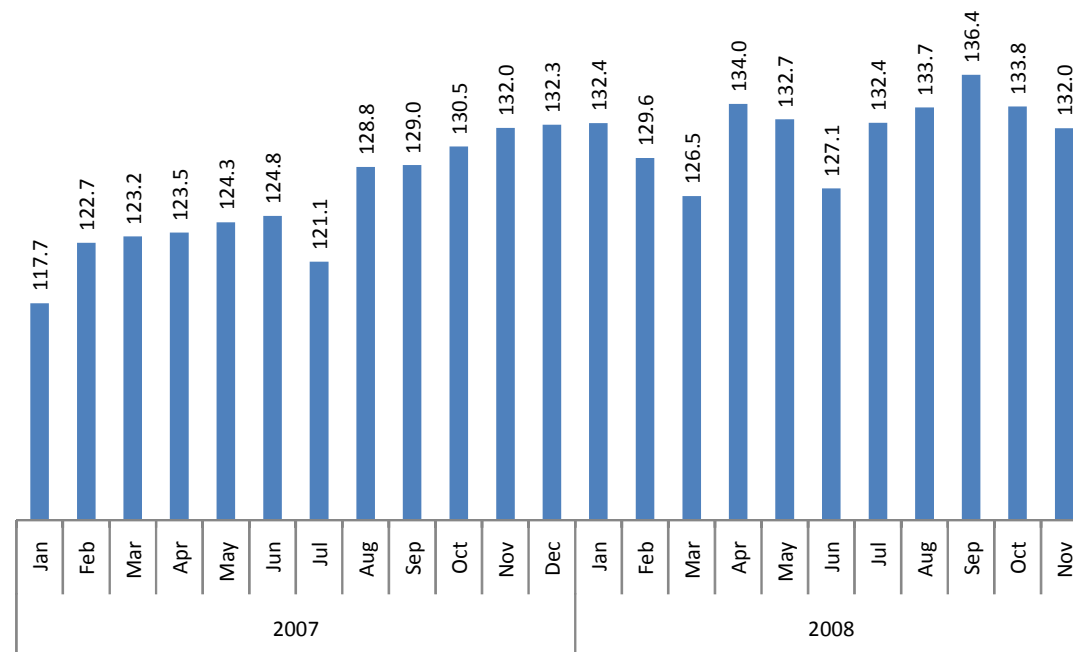


Source: INDEC

- According to the Monthly Industrial Estimator, manufacturing production has shown a falling trend during the last two months. In November, the index fall 0.9% in comparison to the previous month.
- Nevertheless, the accumulated variation of the first eleven months of the current year, in comparison the same period of the previous year, shows a positive outcome of 5.3% (in deseasonalized terms).

Industrial activity performance

Base year 2004=100



Source: INDEC

- Among all the industrial sectors, the industry of chemical substances and chemical products has shown the most dynamic pattern during the first eleven months of the year, accumulating a growth of 11.44%.
- The industry of food and beverages has also shown a high dynamism, accumulating an expansion of 10.72%.

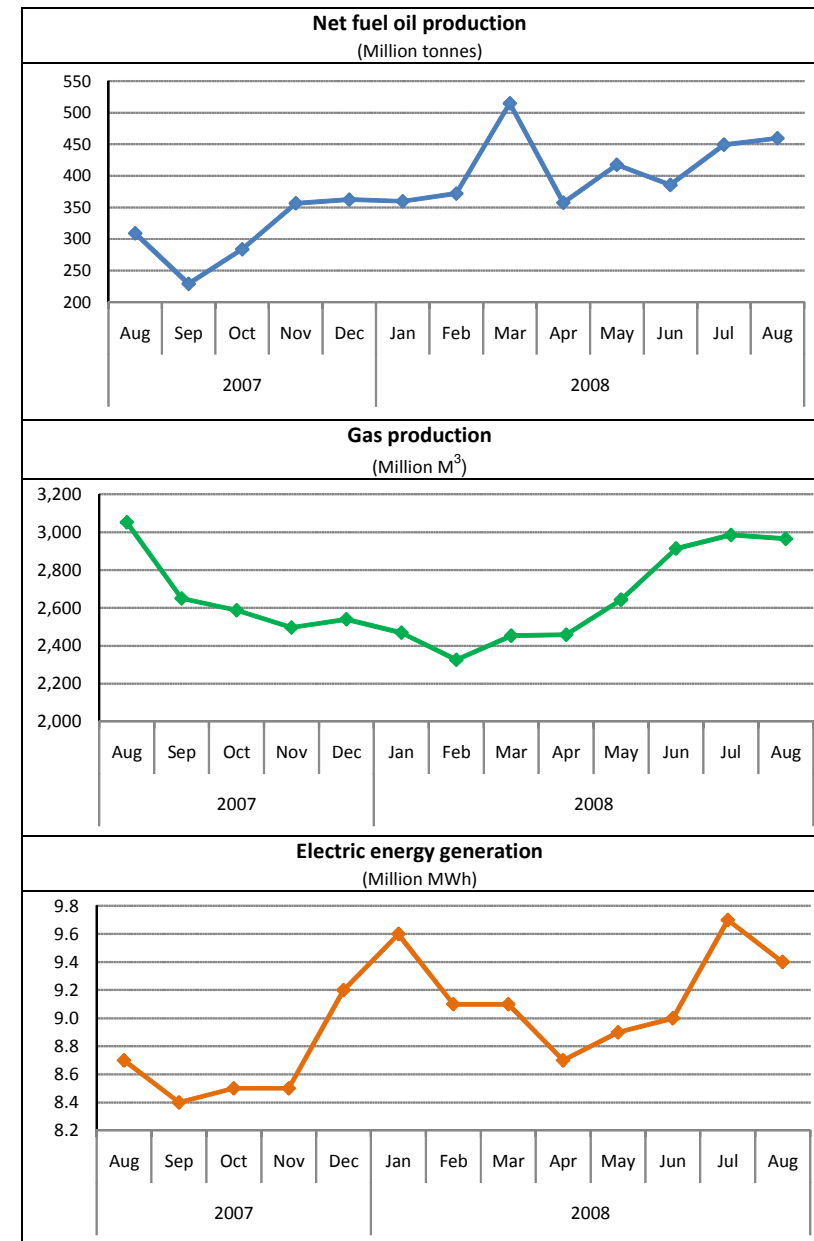
Indicators of Industrial Production by sections of Industry and Activities 2008

Sections of Industry and Activities	Last 12 months ²			Cumulative
	Sep	Oct	Nov	Jan-nov
Food and beverages	6.8	6.8	6.8	10.72
Cigarettes	22.8	8.8	8.8	-7.88
Textiles	-12.7	-10.4	-10.4	-2.35
Paper and paperboard	5.6	-5.3	-5.3	8.89
Publishing and printing	3.9	4.6	4.6	6.76
Refining of petroleum	-0.6	-1.0	-1.0	-12.42
Chemical substances and chemical products	2.1	1.6	1.6	11.44
Rubber and plastic	-9.2	-10.8	-10.8	3.39
Non-metallic Minerals	14.0	9.7	9.7	6.02
Basic metal industries	7.6	2.1	2.1	-11.14
Automotive vehicles	28.2	6.2	6.2	-24.41
Metalworking excluding automotive	-3.0	0.8	0.8	5.38

Source: INDEC

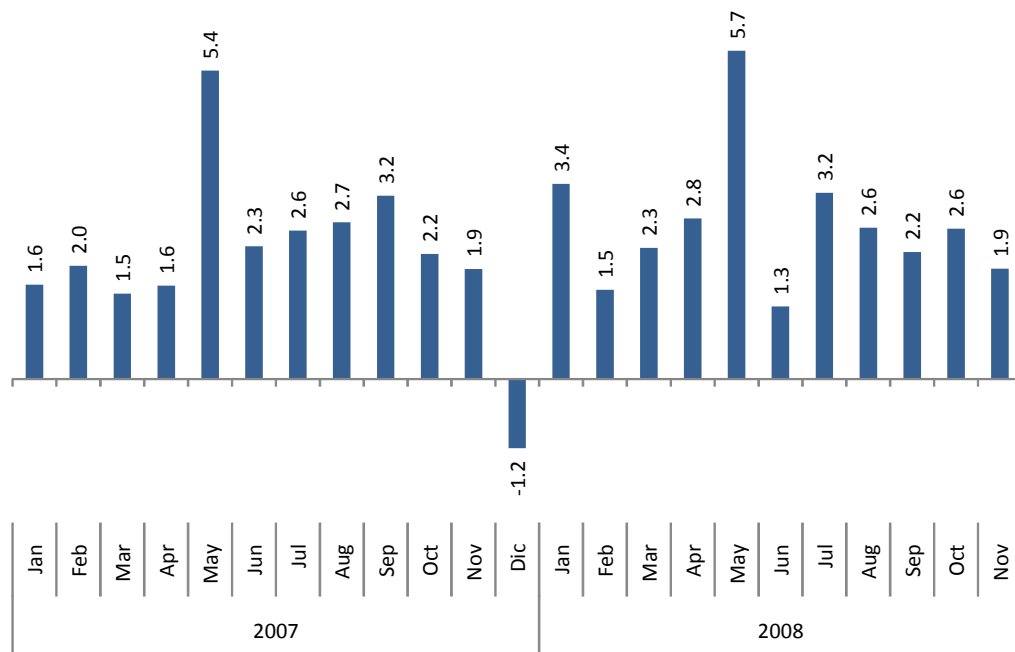
Energy

- According to the Synthetic Energy Indicator, the production of secondary types of energy registered a negative variation of 0.1% between the cumulative of the first eight months of 2008 and the same period of the previous year.
- In annual terms, in August the index fell 2.1% in comparison the same month of 2007.
- The processing of petroleum registered in August an increment of 2.9%, respect to the same period of 2007.
- Meanwhile, the production of petroleum derivatives such as fuel oil, diesel oil and naftas registered rises during the January-august period. By the other hand, the production of common nafta, lubricant bases and kerosene fell during the same period.
- Also in August, the amount of gas delivered to sub distributors increased. Meanwhile, the energy demand registered a fall of 0.9% respect to the same period of the previous year, because benign temperatures were registered.



Source: INDEC

Central government primary result
AR\$ billion

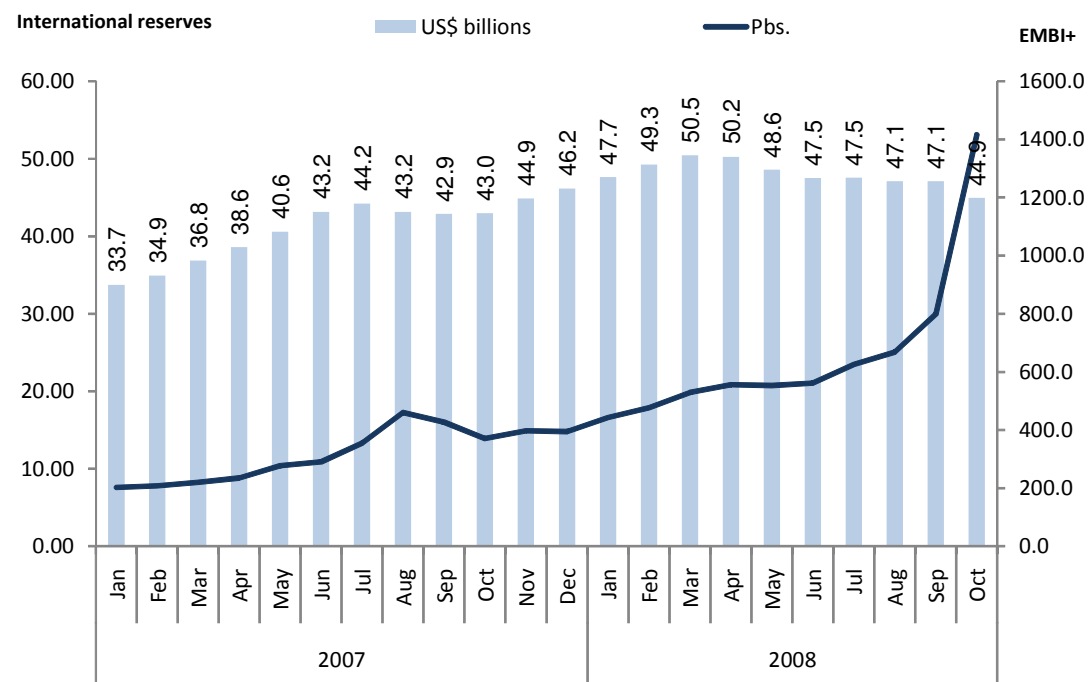


Source: Ministerio de Economía y Finanzas Públicas de Argentina

- The 4th of December, the Argentinean President, Cristina Fernandez announced the economic plan in order to stimulate production, consumption and employment which have been affected by the global crisis. The plan will inject US\$ 4,125 millions to the economy.
- One of the most controversial measures is the nationalization of private funds, which intends to protect workers' savings from falling stocks and bond prices. However, the take-over is widely seen as a means to service the government's debt obligations in 2009, as workers' contributions would flow directly into state coffers.
- In order to boost consumption, aprox US\$ 1.1 billion will be enabled for credits to those persons who may purchase electro domestics and durable goods and also US\$ 970 million will be enabled for credits to purchase cars.

- In order to boost the automotive industry, the government will inject US\$ 906.4 millions. In November, the production of cars registered a drop of 26.4% in comparison to the previous month and a reduction of 28.1%, compared to the same month of the previous year.
- Also, the President has announced a reduction of 5 percentual points in the retentions of the wheat and corn exports.

Evolution of international reserves and EMBI+
In US\$ billions and percentual basis points (Pbs.)



Source: Banco Central de Argentina