

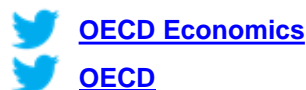


OECD ECONOMIC SURVEYS: ARGENTINA 2019

*Laying the foundations for a stronger
and more inclusive growth*

Buenos Aires, 27 March 2019

<http://www.oecd.org/economy/surveys/argentina-economic-snapshot/>





Key recommendations

- Over many years, the economy has been held back by weak policy settings. This has led to a build-up of various imbalances.
- Ambitious reforms have been undertaken since 2016. To reap the benefits of these reforms, it will be crucial to avoid policy reversals.



Key recommendations

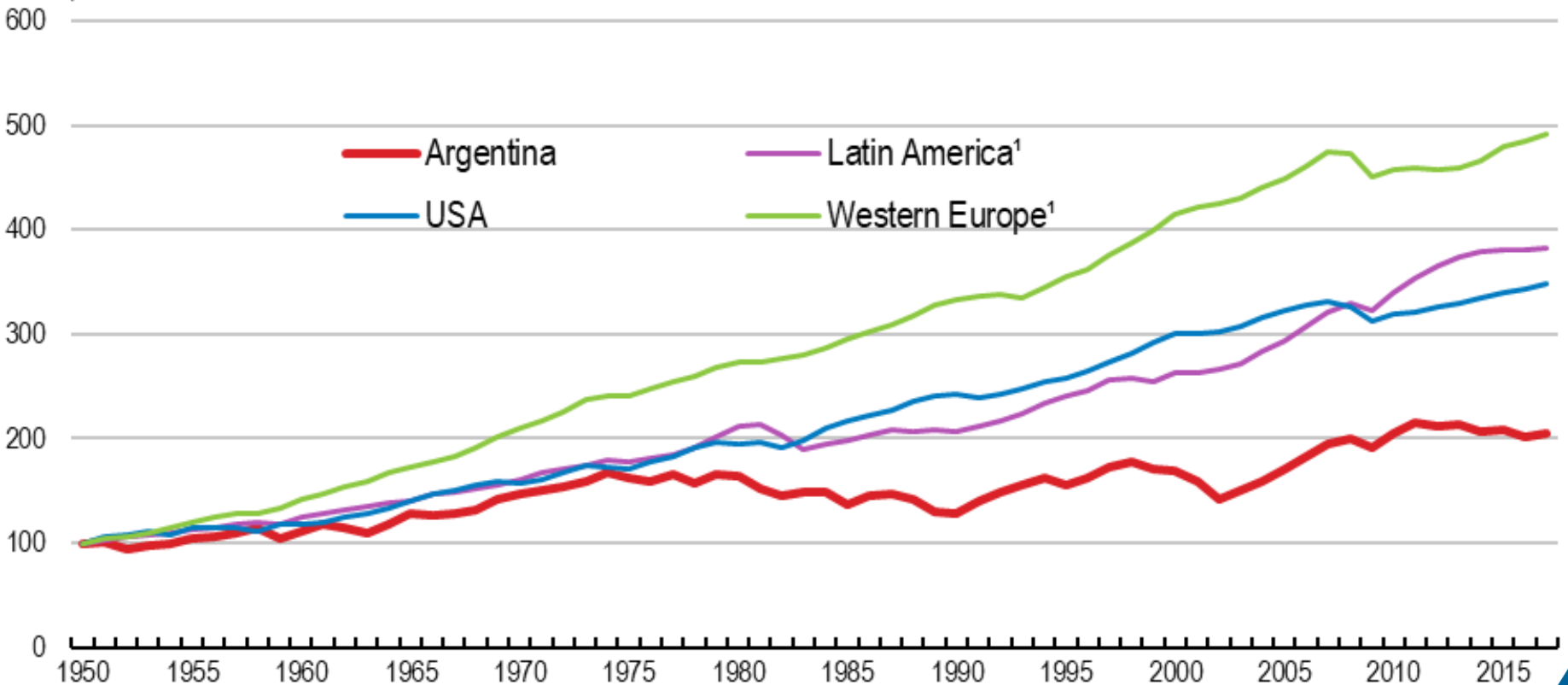
- But the work is far from being finished. Many challenges still lie ahead to achieve more solid and inclusive growth.
- The difficulties faced in 2018 underline the need to speed up the reform process.



Argentina has lost ground relative to other economies

GDP per capita

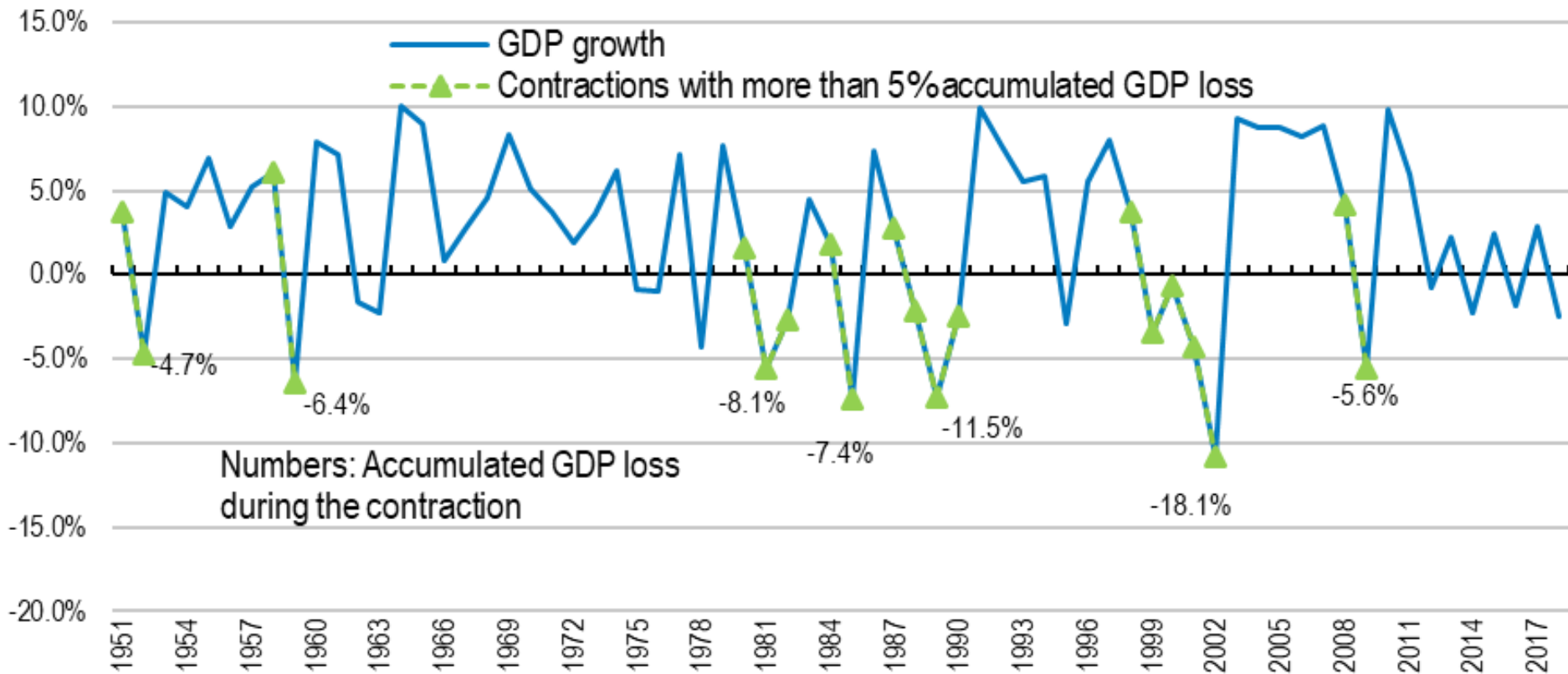
Index, 1950 = 100



Source: OECD calculations based on Bolt and Van Zanden (2014) (see <http://www.ggdc.net/maddison/maddison-project/data.htm>).



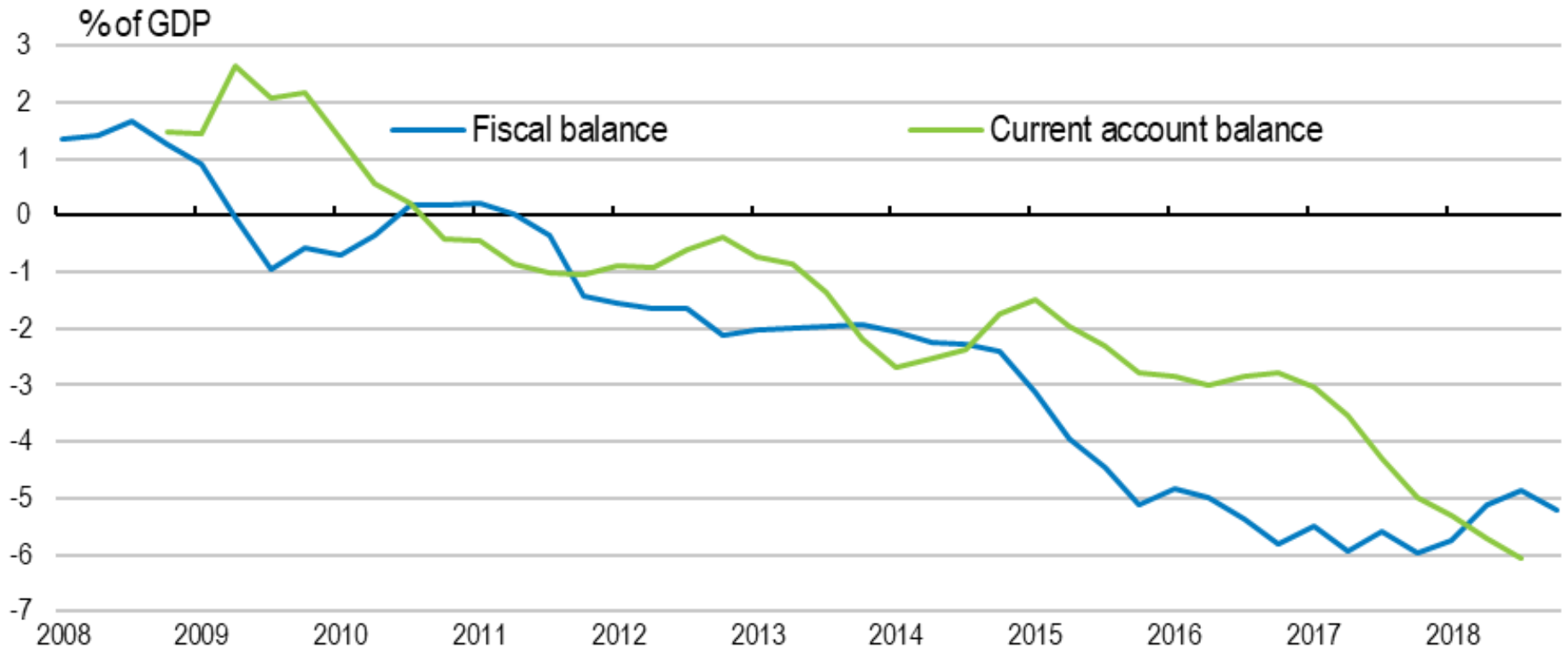
History has been characterised by recurrent crises and high volatility



Source: Kidyba, S. and L. Suárez (2017). "Aplicación de índices encadenados al empalme de series. Argentina 1950 – 2015." Programa de investigación en cuentas nacionales (PICNA) – FCE – UBA; OECD calculations.



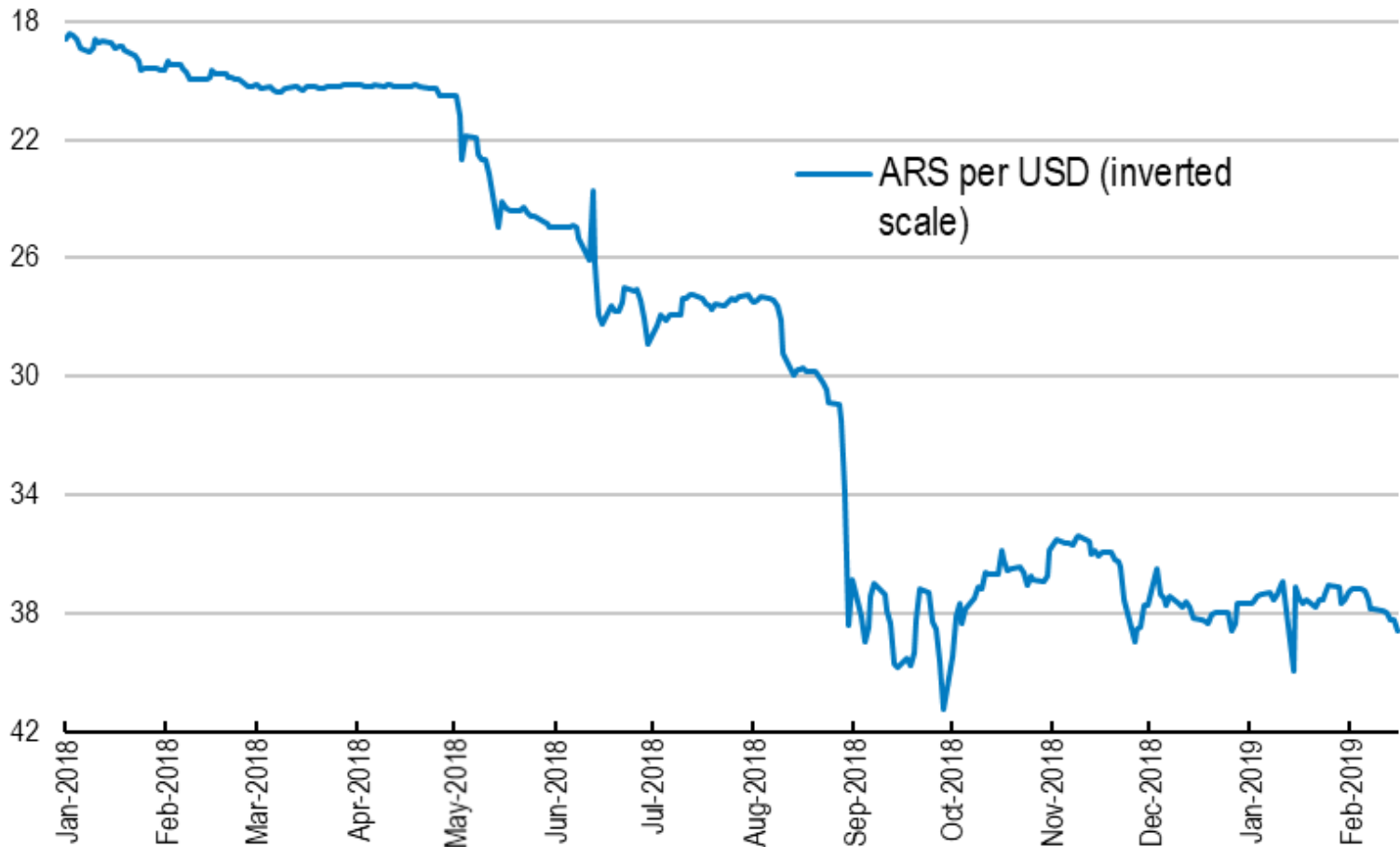
Fiscal and external imbalances have widened until 2018



Source: INDEC, Ministry of the Treasury, CEIC.

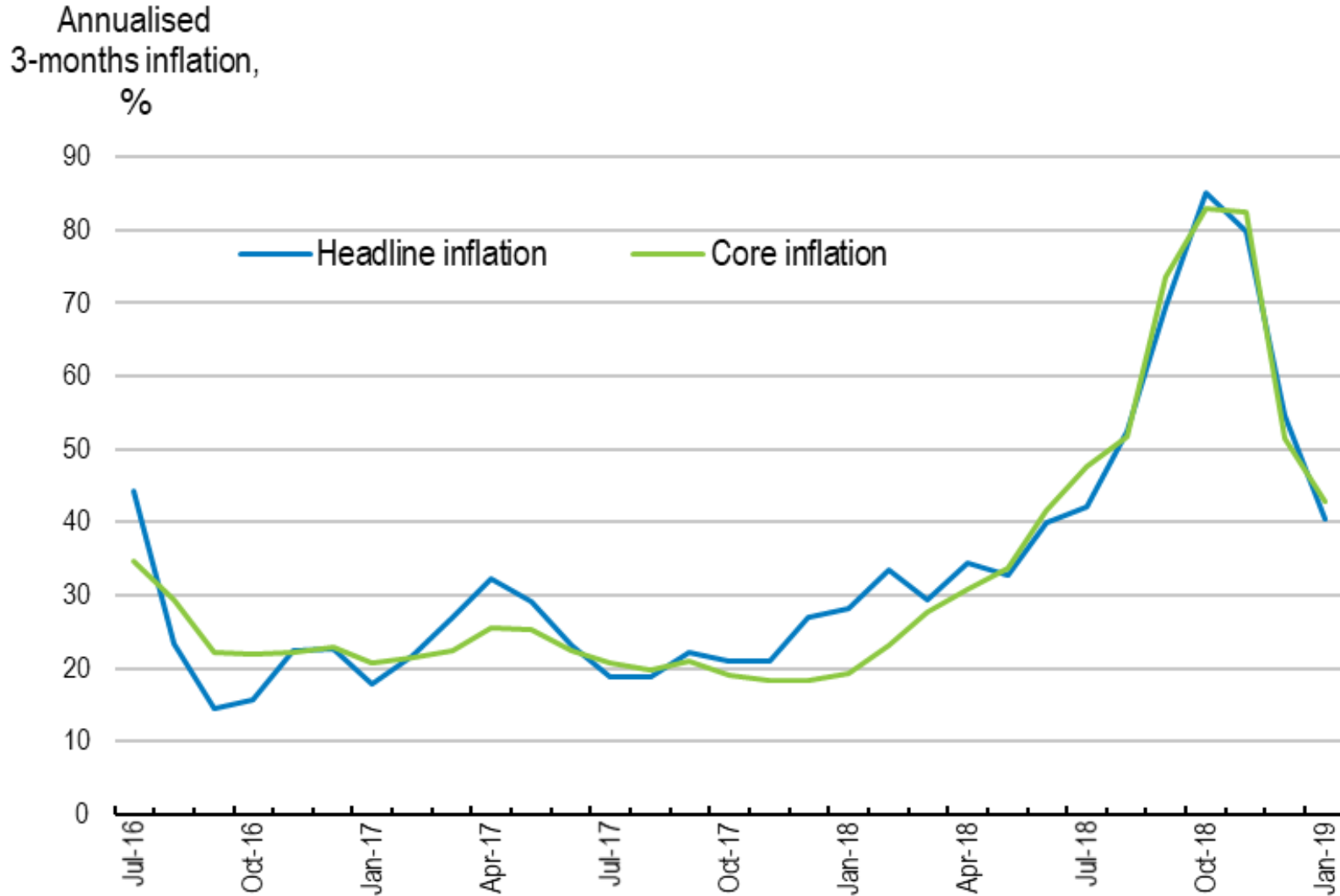


The Exchange rate has stabilised





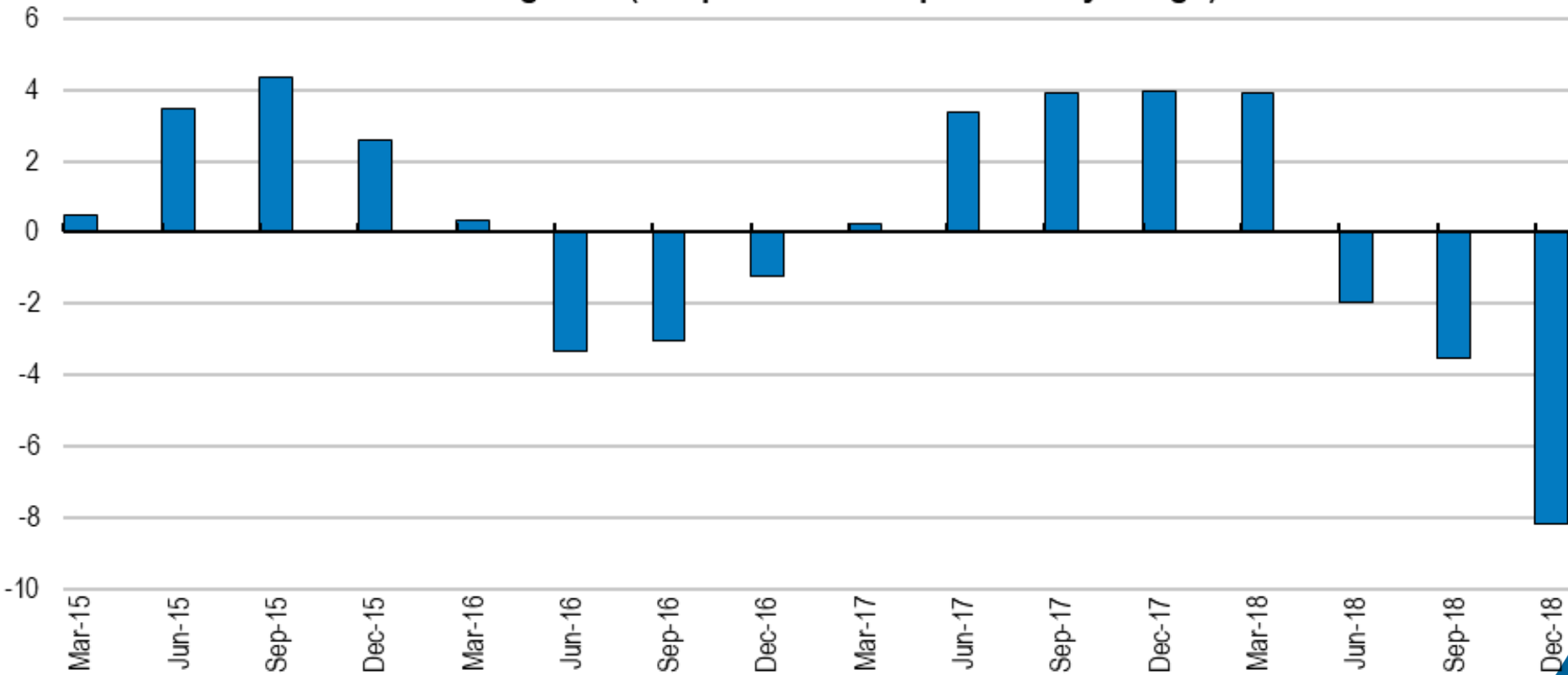
The depreciation has caused a spike in inflation





The economy will recover gradually in 2019

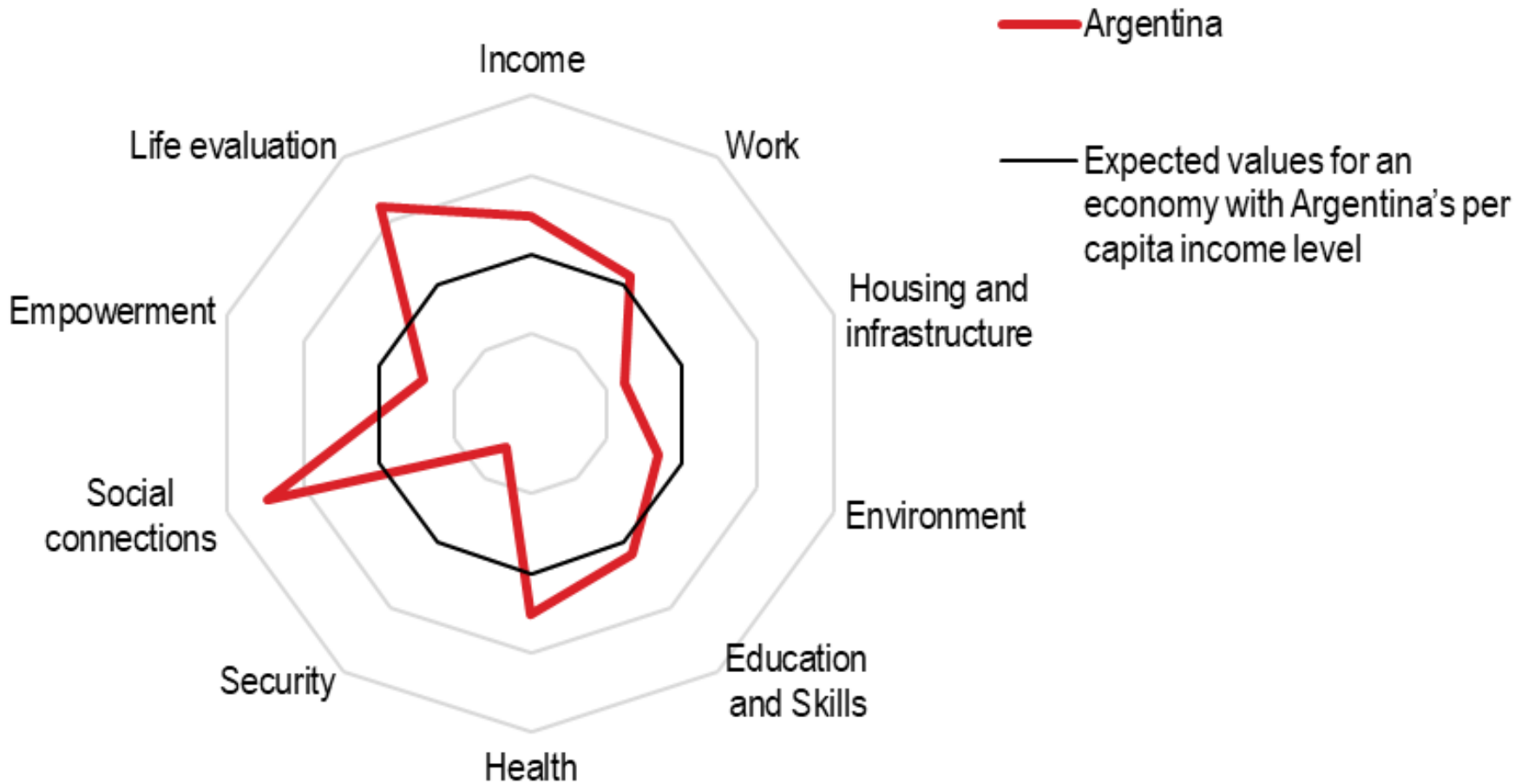
GDP growth (compared to same quarter one year ago)



Source: OCDE database; INDEC.



Well-being indicators show good performance in social connections, life evaluation and health

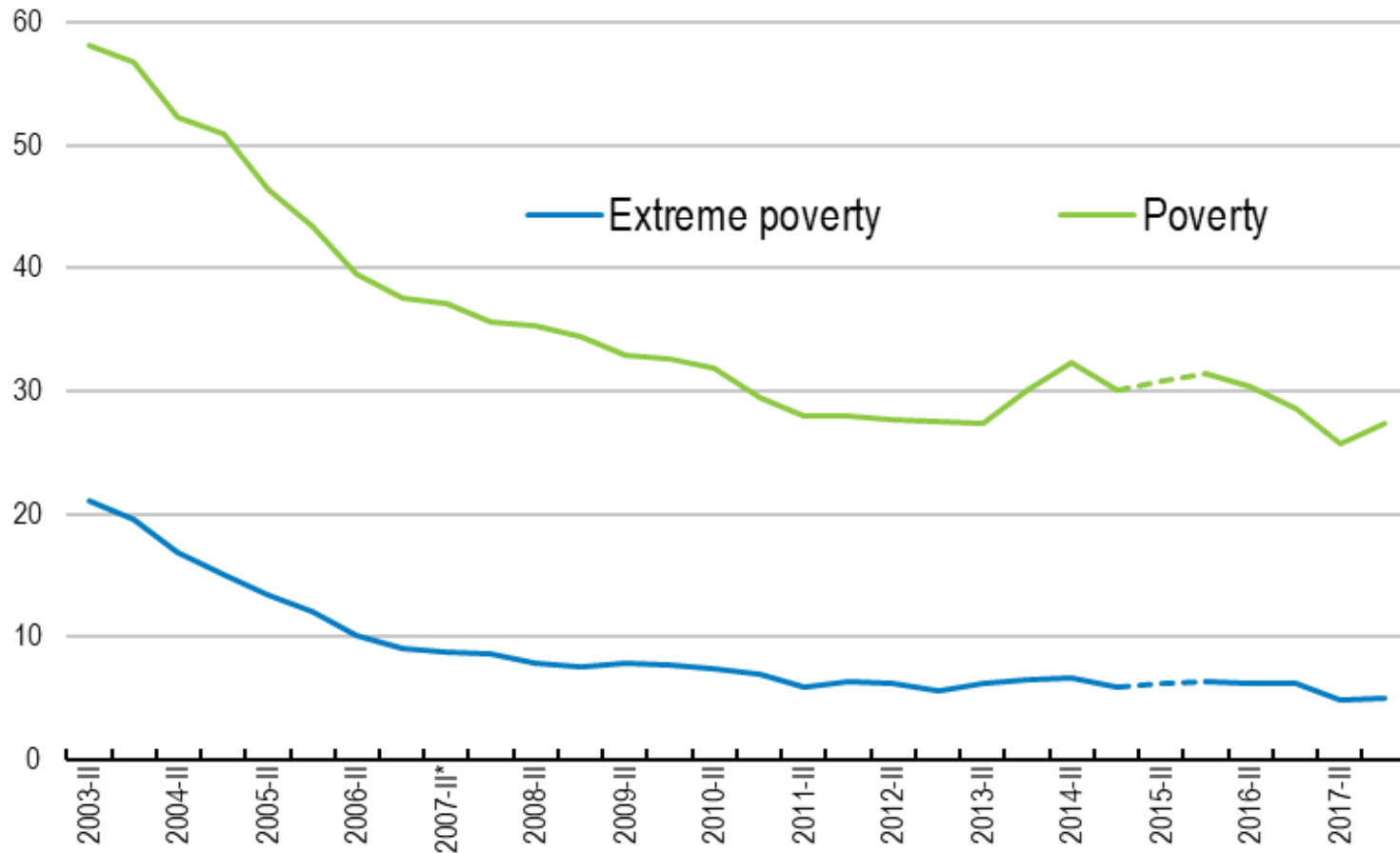


Source: OECD calculations based on OECD Better Life Index – 2017 Edition, which allows comparing countries with respect to well-being along several dimensions the OECD has identified as being key for the material conditions and the quality of life.



Poverty has declined

% of population below poverty lines



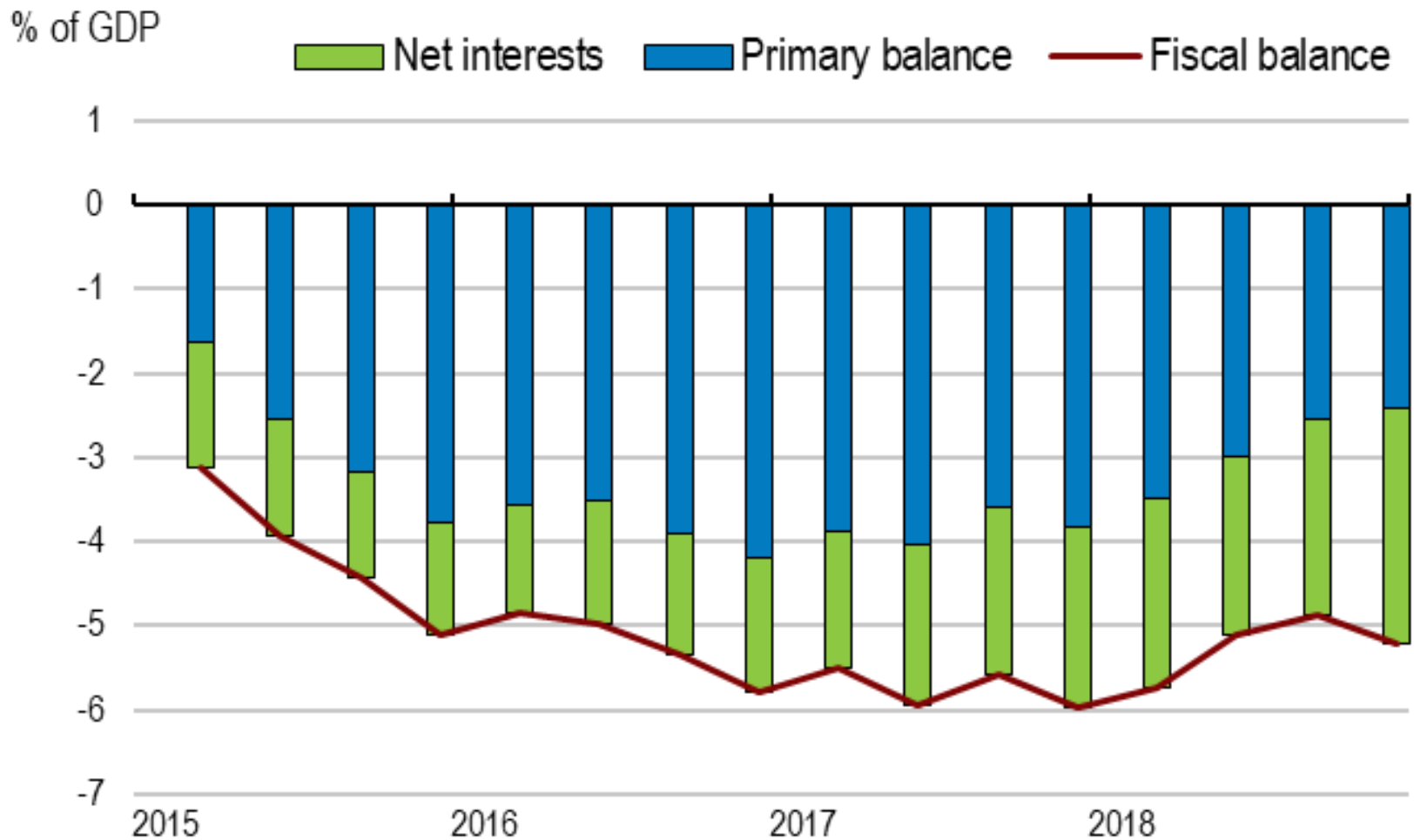
Source: Tomarolli, L. (2018), *Series Comparables de Indigencia y Pobreza*, CEDLAS, UNLP, INDEC as of 2016-II.



Strengthening fiscal policy

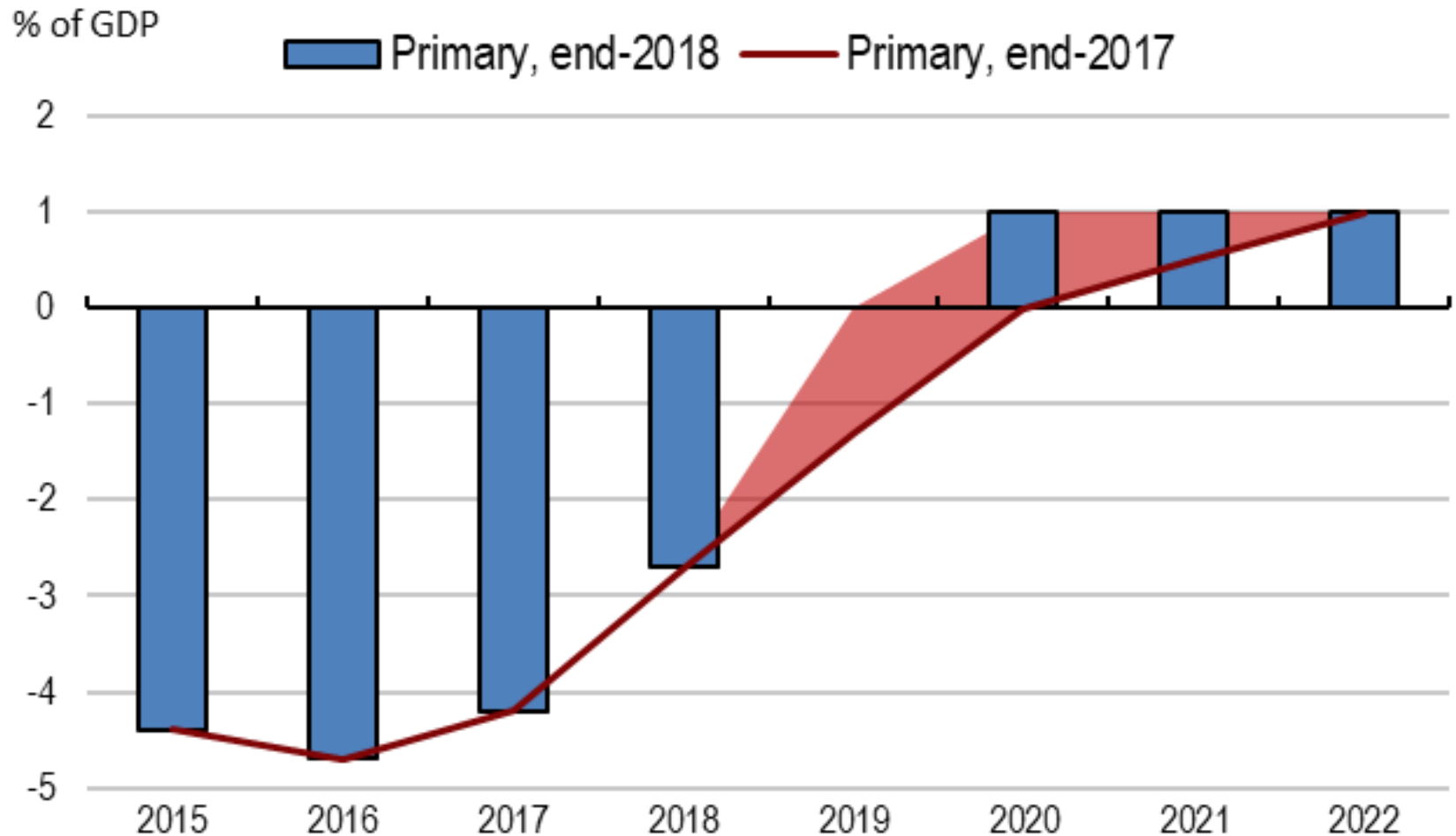


The overall fiscal balance remains high



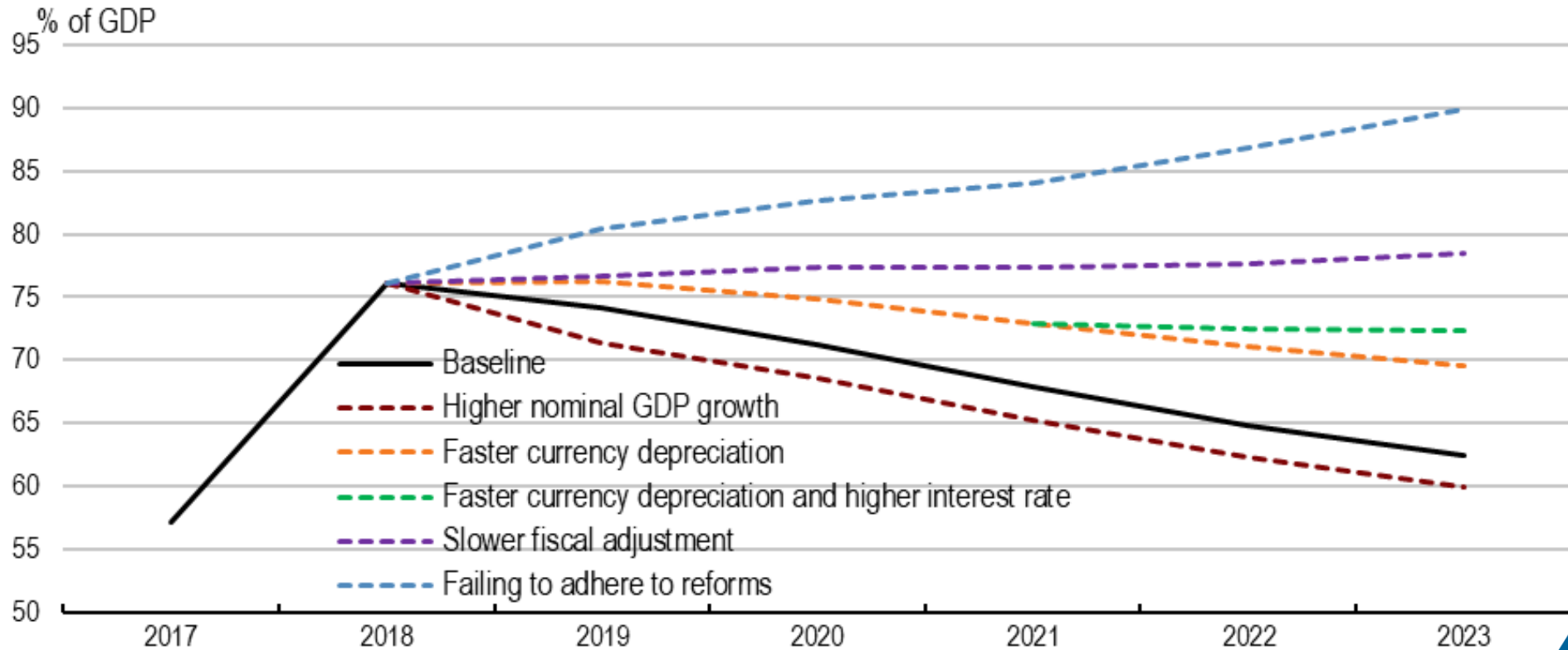


Fiscal consolidation has been accelerated





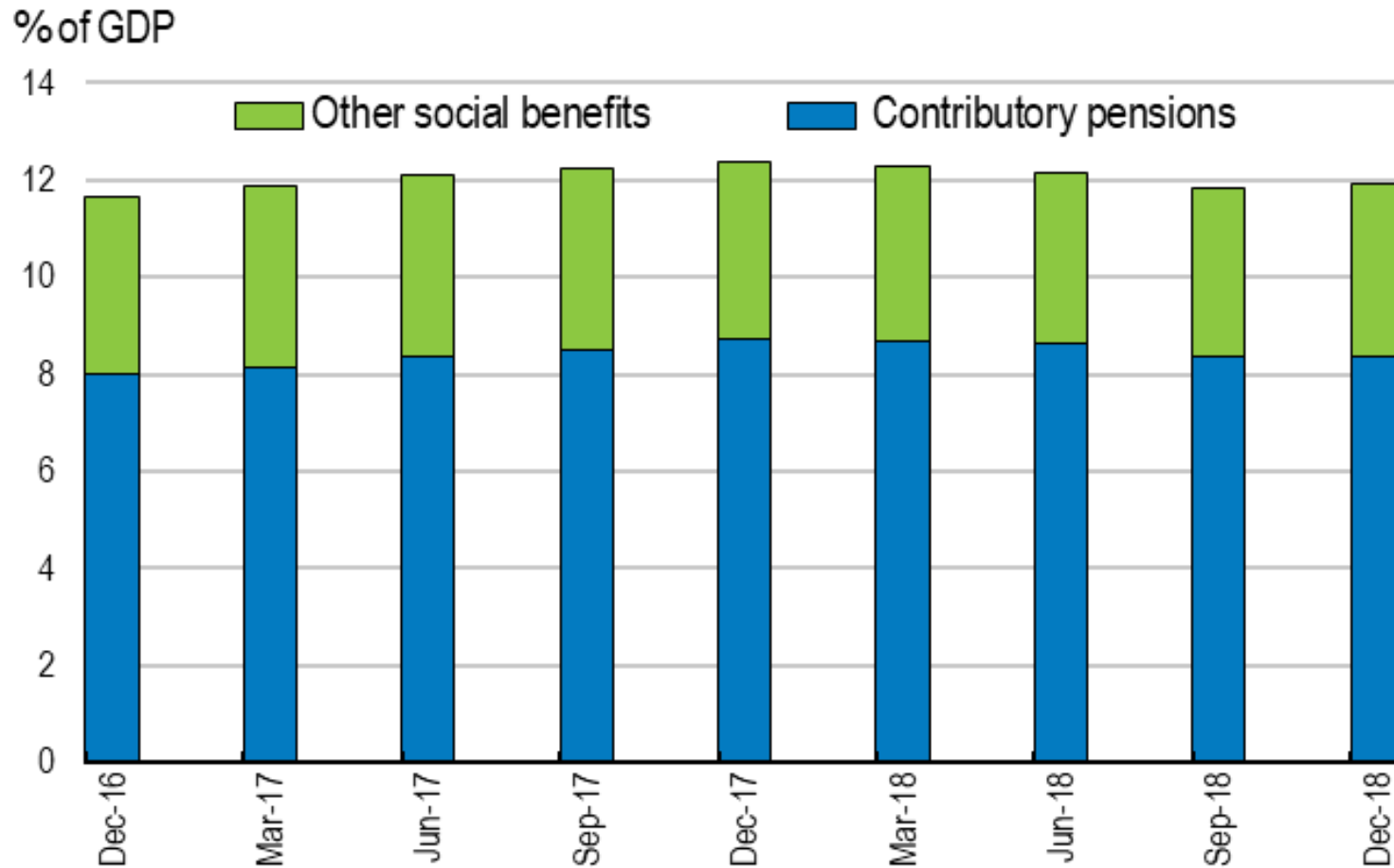
Gross public debt is stabilising, but there are risks



Source: OECD calculations. Gross public debt includes intra-public sector debt.



Social spending has been safeguarded

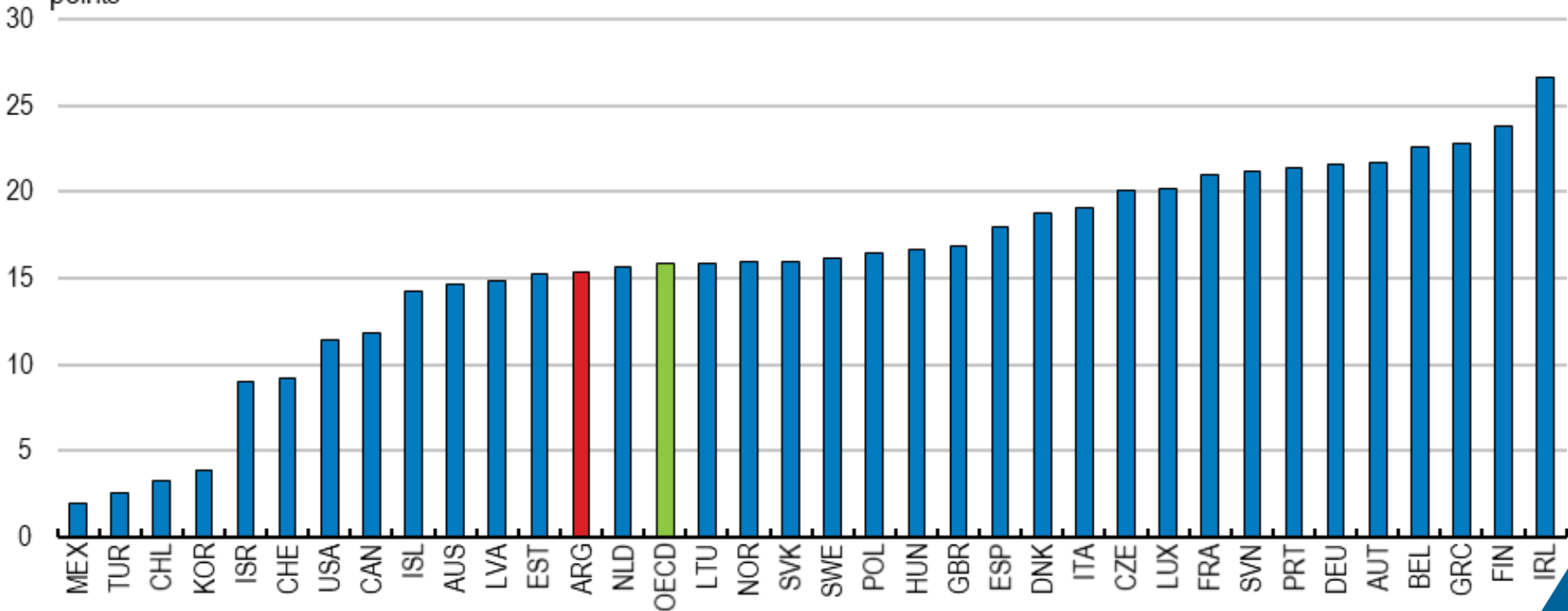




Transfers and taxes alleviate inequalities

Reduction of the Gini coefficient due to taxes and transfers, latest available year

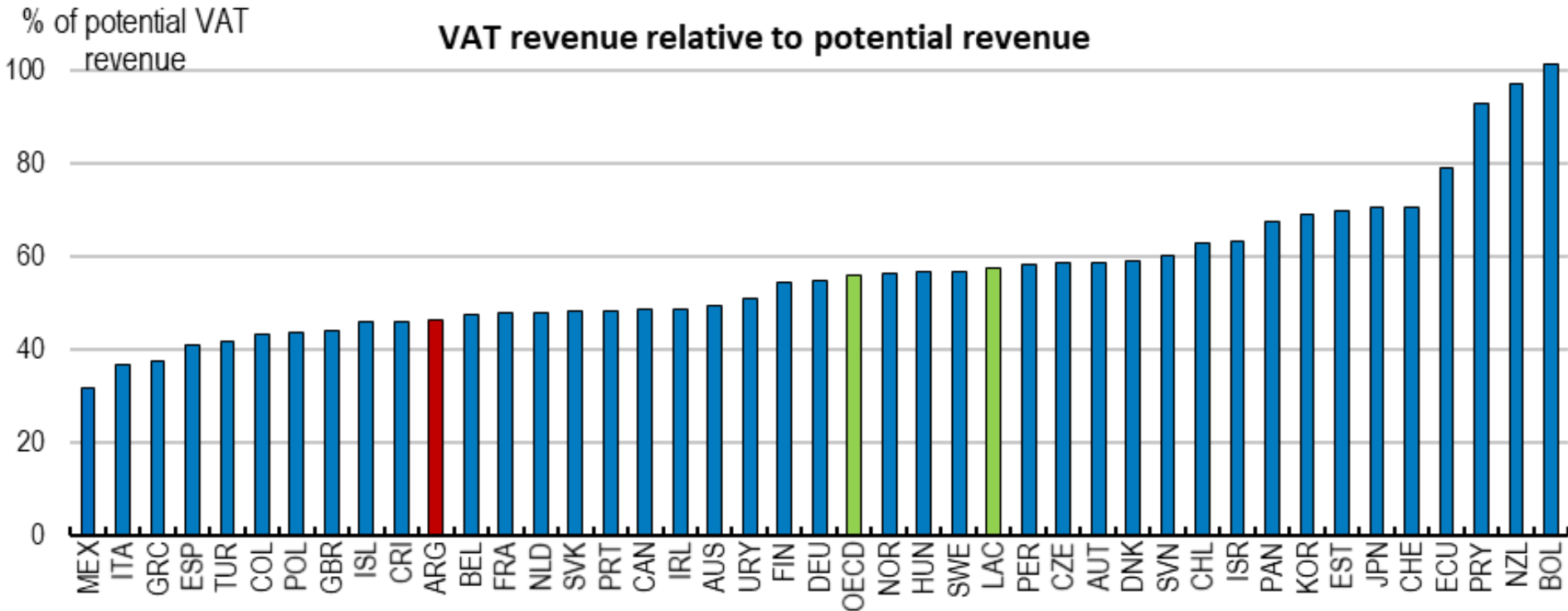
Percentage points



Source: Rossignolo and Arnold, 2019.



VAT revenues could be higher with stronger compliance and less use of reduced rates

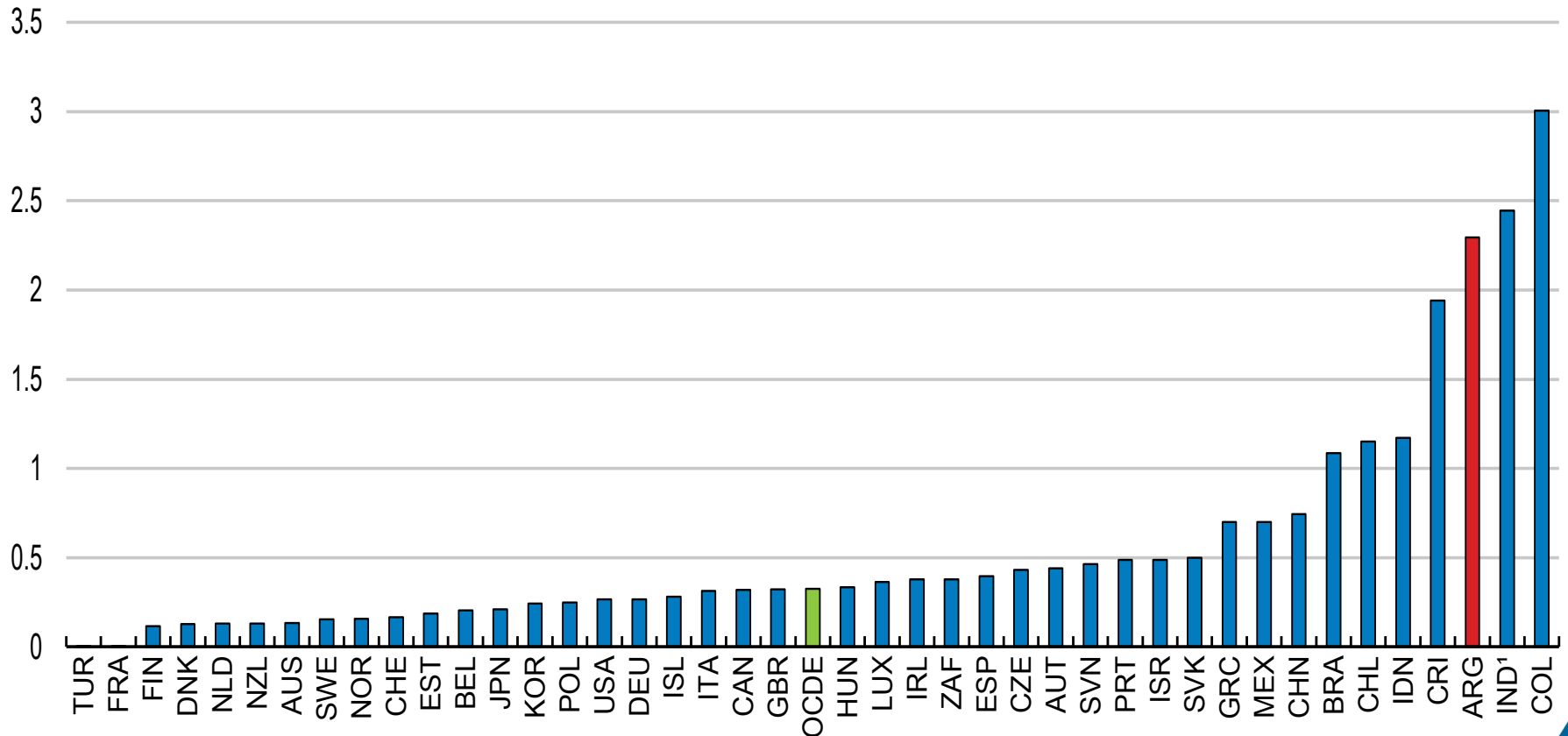


Source: Calculations based on OECD (2016), OECD Tax Database, OECD Revenue Statistics and OECD National Accounts Statistics (databases), OECD Revenue Statistics for Latin American countries, 2016.



Few people pay personal income tax

Income threshold where single taxpayers start paying income tax, measured as a multiple of the average wage



Source: OECD calculations for Argentina, China, India, Indonesia and South Africa; and OECD Taxing Wages 2017 for the rest of the countries.



Key recommendations- *Fiscal policy*

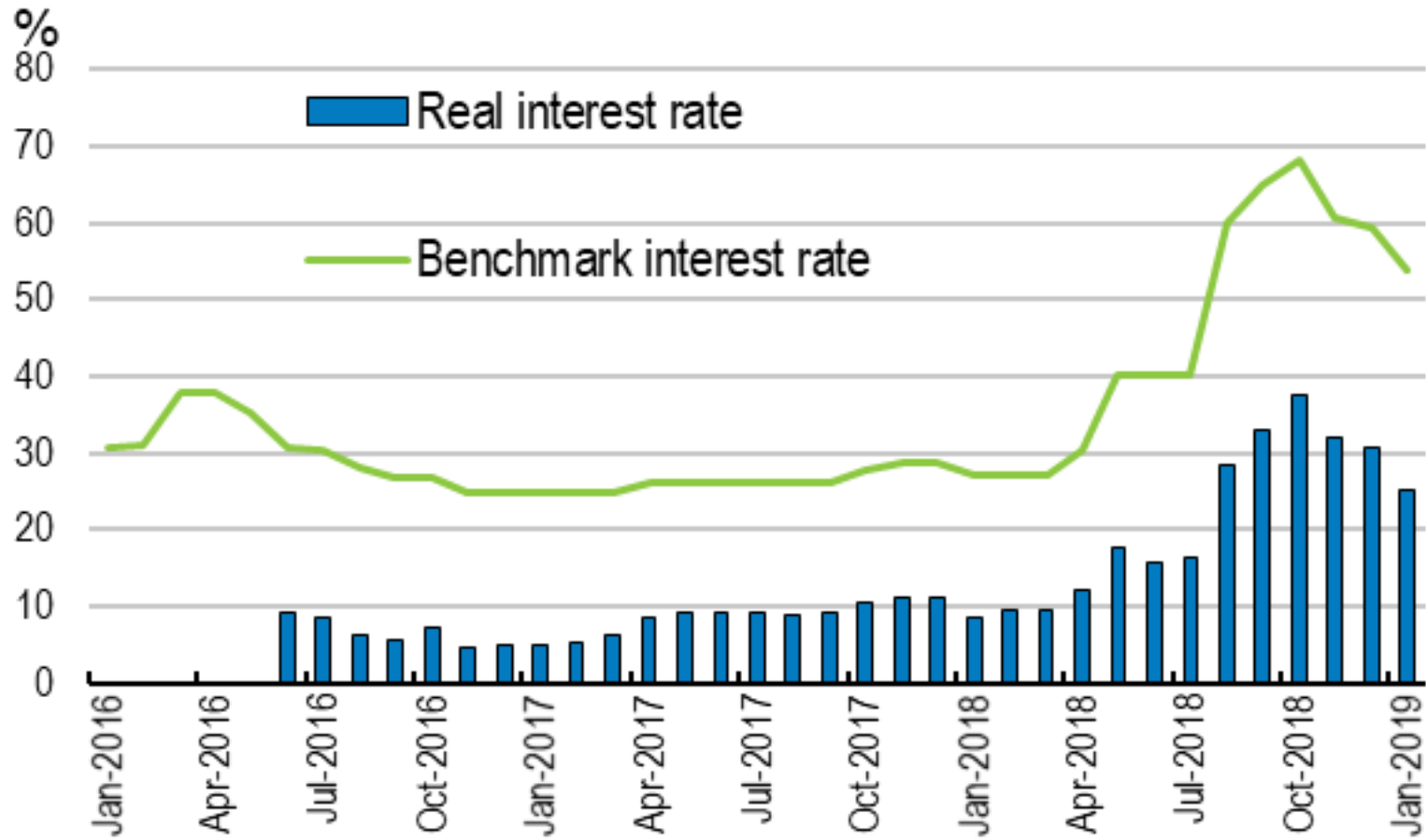
- Adhere to fiscal commitments by reducing the fiscal deficit in line with announced targets, prioritising expenditure reductions.
- Use the fiscal space granted to raise spending on well-targeted social transfers if social indicators deteriorate.
- Improve spending efficiency in education; merge smaller teacher training institutions.
- Broaden the VAT base by reducing exemptions and special rates.
- Lower the basic deduction in personal income taxes.
- Remove the personal income tax exemption of civil servants in the judiciary branch entirely.
- Align the conditions of special pension regimes with general pension rules.



Monetary and financial policies



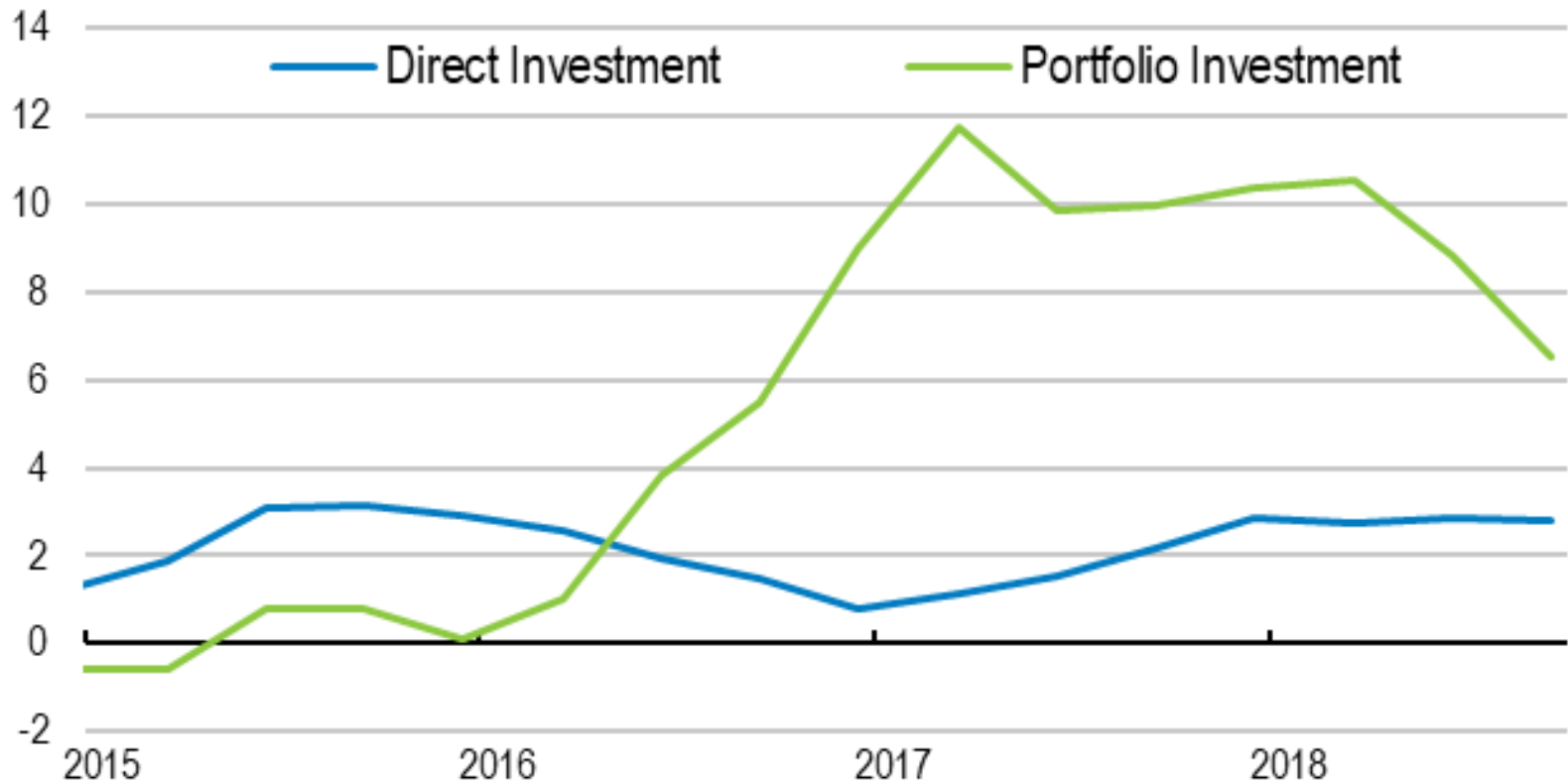
Monetary policy has been contractionary





High interest rates attracted large portfolio capital inflows

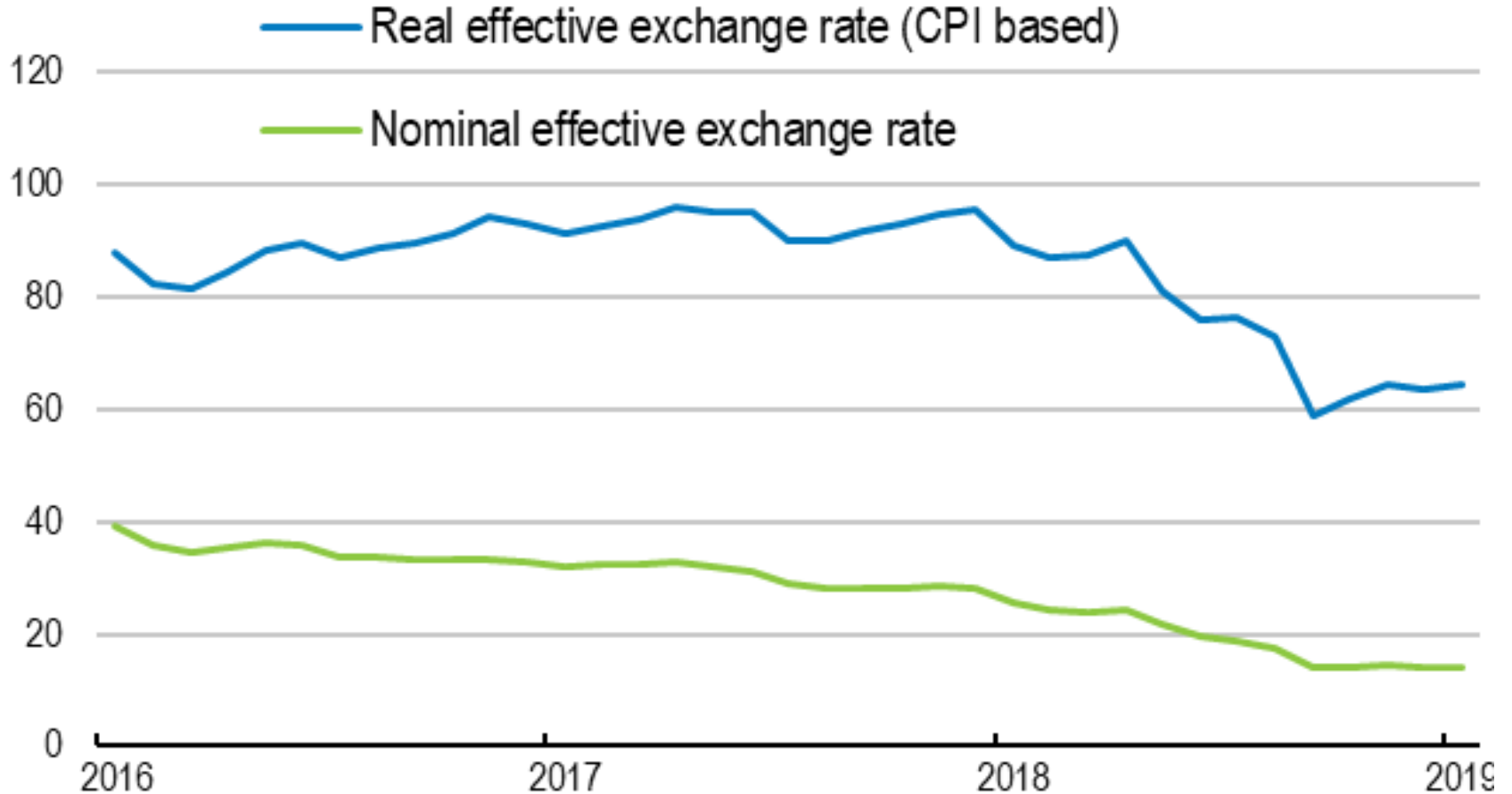
USD bn, 4-quarter moving averages



Source: INDEC, CEIC.



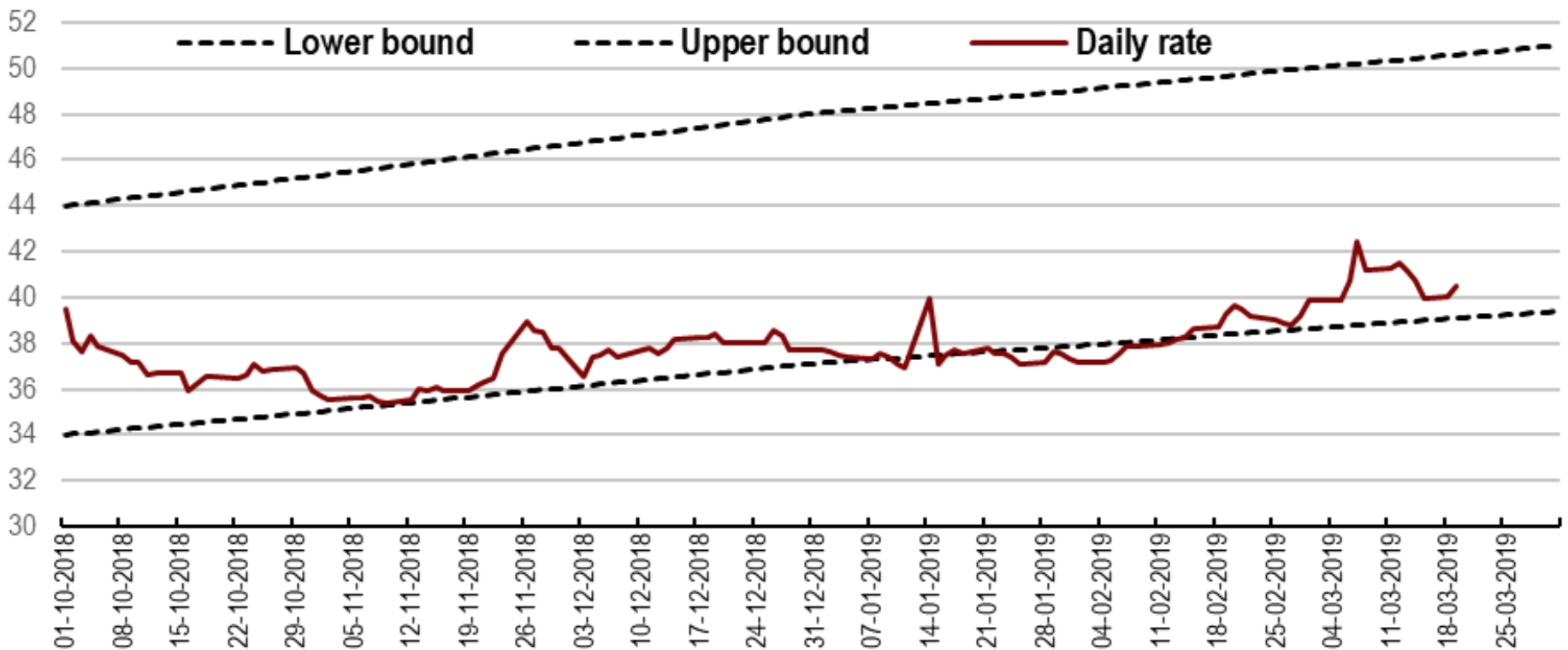
Capital inflows caused a real appreciation and added to vulnerabilities





Loss of confidence and large shocks caused a rethink of the monetary policy framework

ARS / USD



Source: Central Bank.



Key recommendations- *Monetary and financial policies*

- Strengthen the independence of the Central Bank through limiting the dismissal of its governor to severe misconduct.
- Simplify the mandate of the Central Bank prioritising price stability.
- Develop a domestic-currency denominated sovereign bond market over time.



**Structural reforms are key to foster
economic growth**



Expected gains from past and new structural reform are substantial

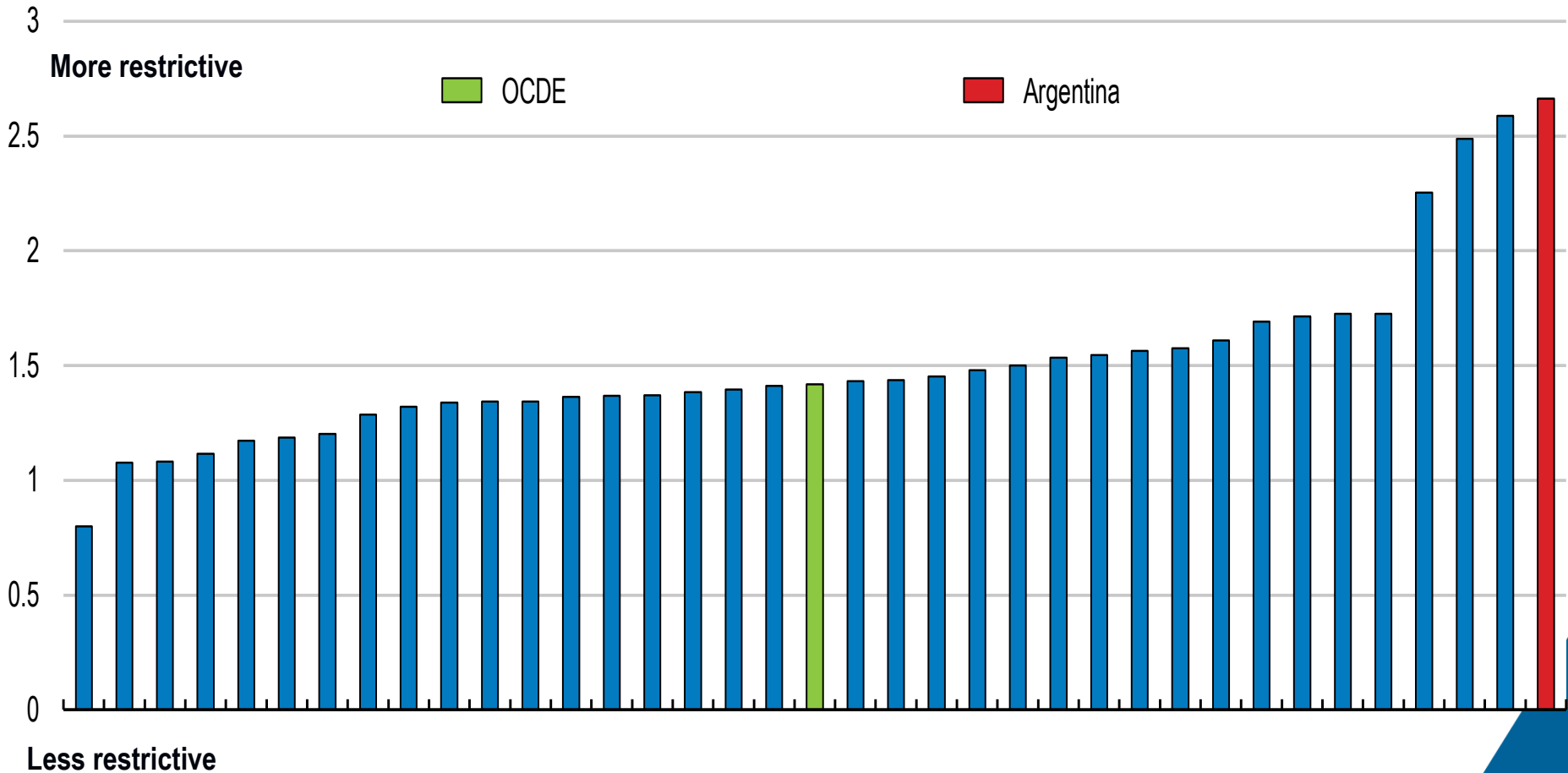
Estimated impact of selected reforms on real GDP

Reform	Effect of reforms implemented since 2016	Additional benefit of further reforms
Reforms on product markets:		
Lower trade barriers (e.g. by reducing tariffs and non-tariff barriers)	2.6%	13%
Reduce barriers to entrepreneurship (e.g. by cutting administrative burdens and limiting anti-competitive effects of regulation)	2.6%	5.3%
Labour Market Reform	-	0.5%
Reduce corruption (e.g. by improving procurement laws and whistle-blower procedures)	0.8%	1.0%
Improve government effectiveness (e.g. by undertaking systematic audits and evaluations)	0.6%	0.5%
All of the above	6.6%	20.3%
Corresponding to an average annual growth increase of:	0.7 percentage points	2.0 percentage points



Competition is low in many sectors

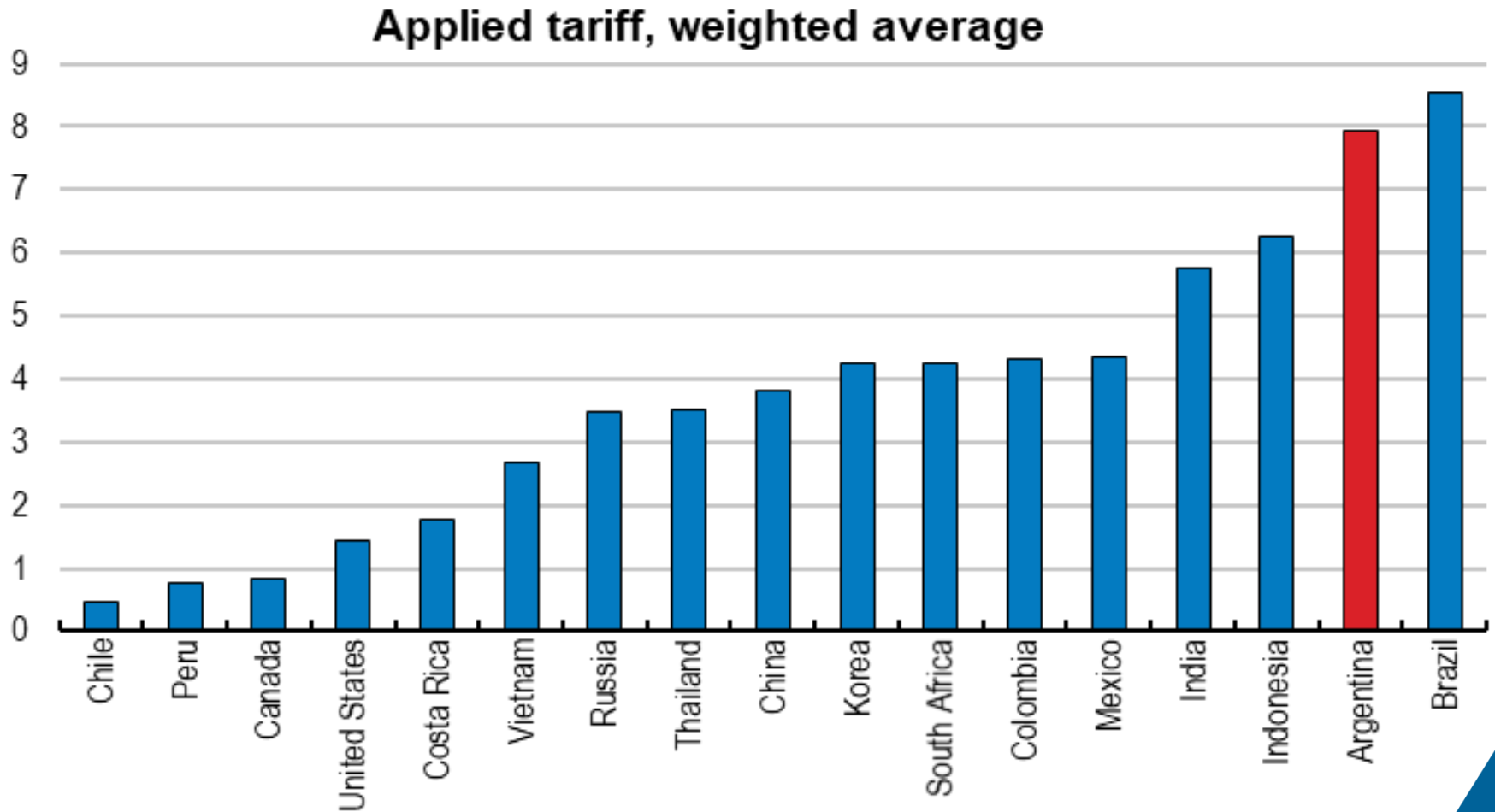
OECD Product Market Regulation Indicator 2018 (Preliminary version)



Source: OECD Product market regulation database.

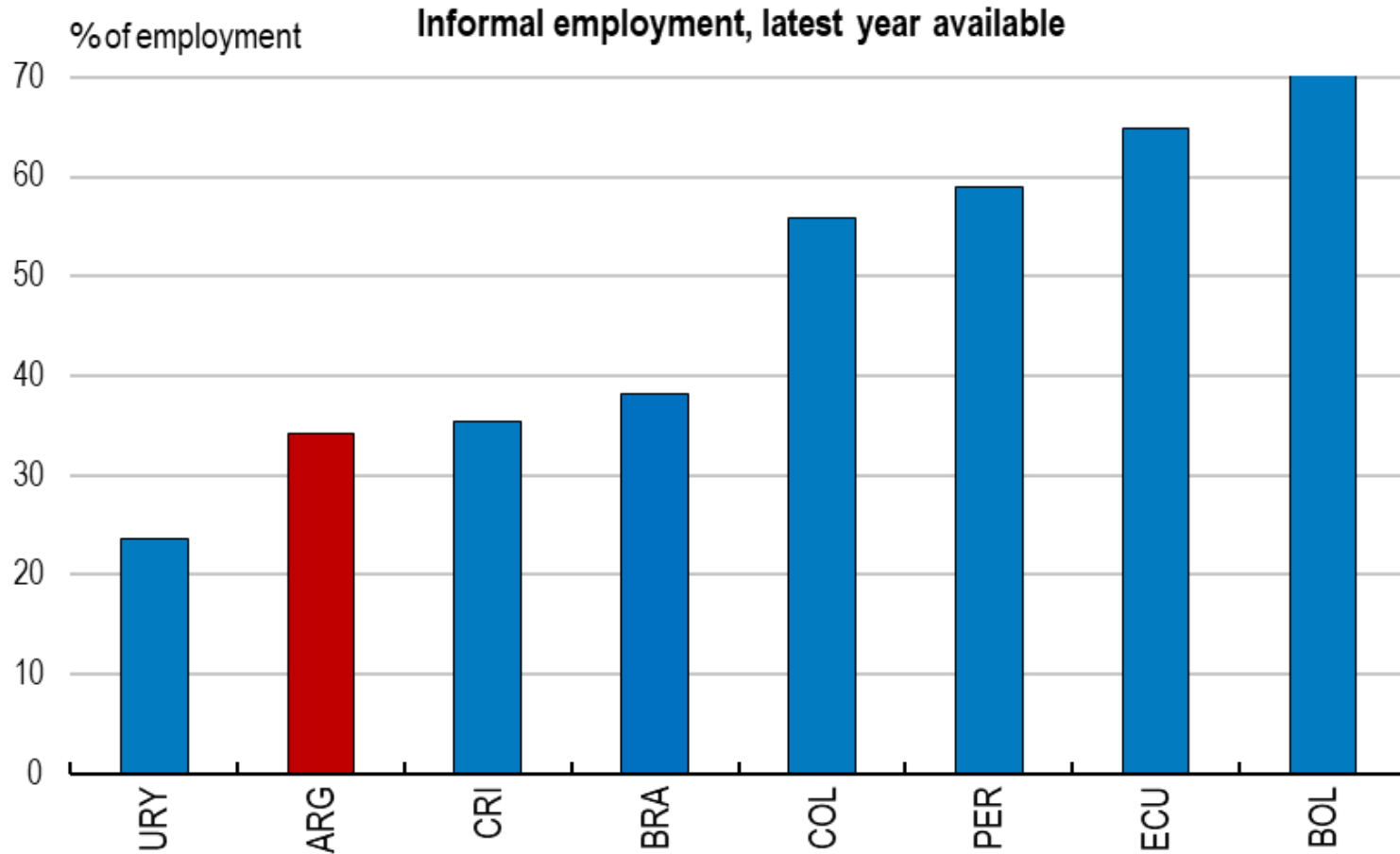


Tariff barriers are high





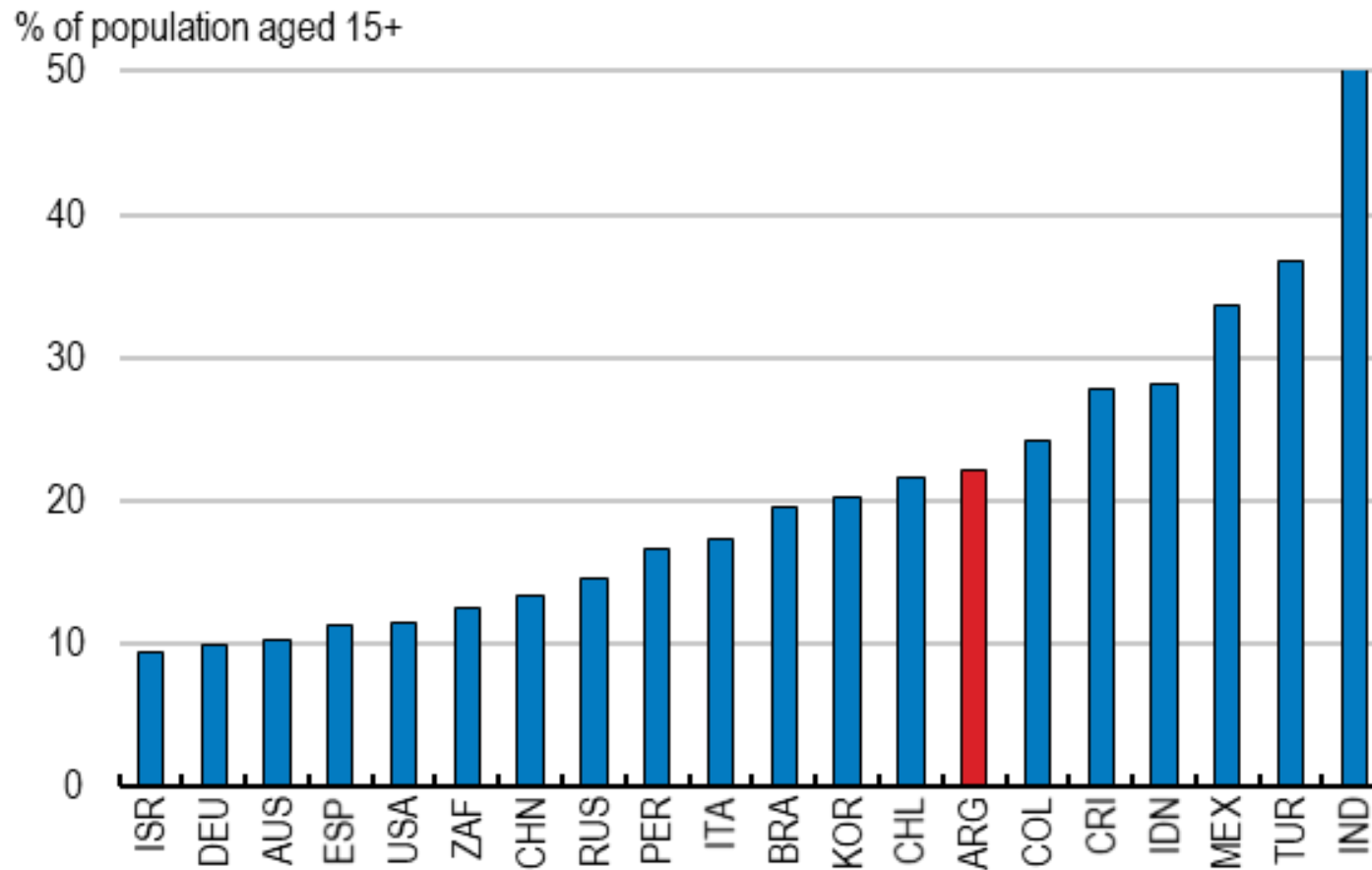
One third of the total workforce is informal





Female labour participation is low

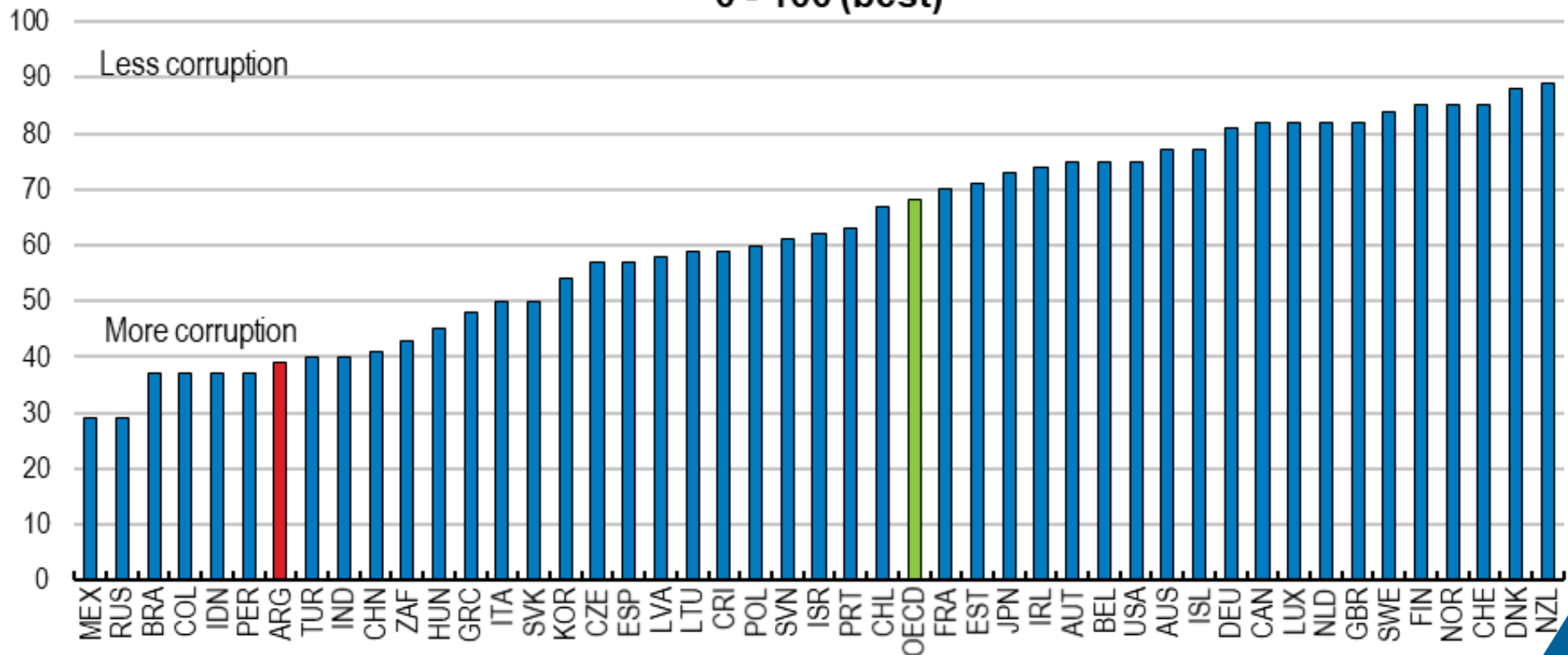
Differences in employment rate between men and women





Strengthening institutions would improve the business climate

Corruption perception index, 2017
0 - 100 (best)



Source: Transparency International, available at <https://www.transparency.org/research/cpi/overview>.



Key recommendations- *Structural reforms*

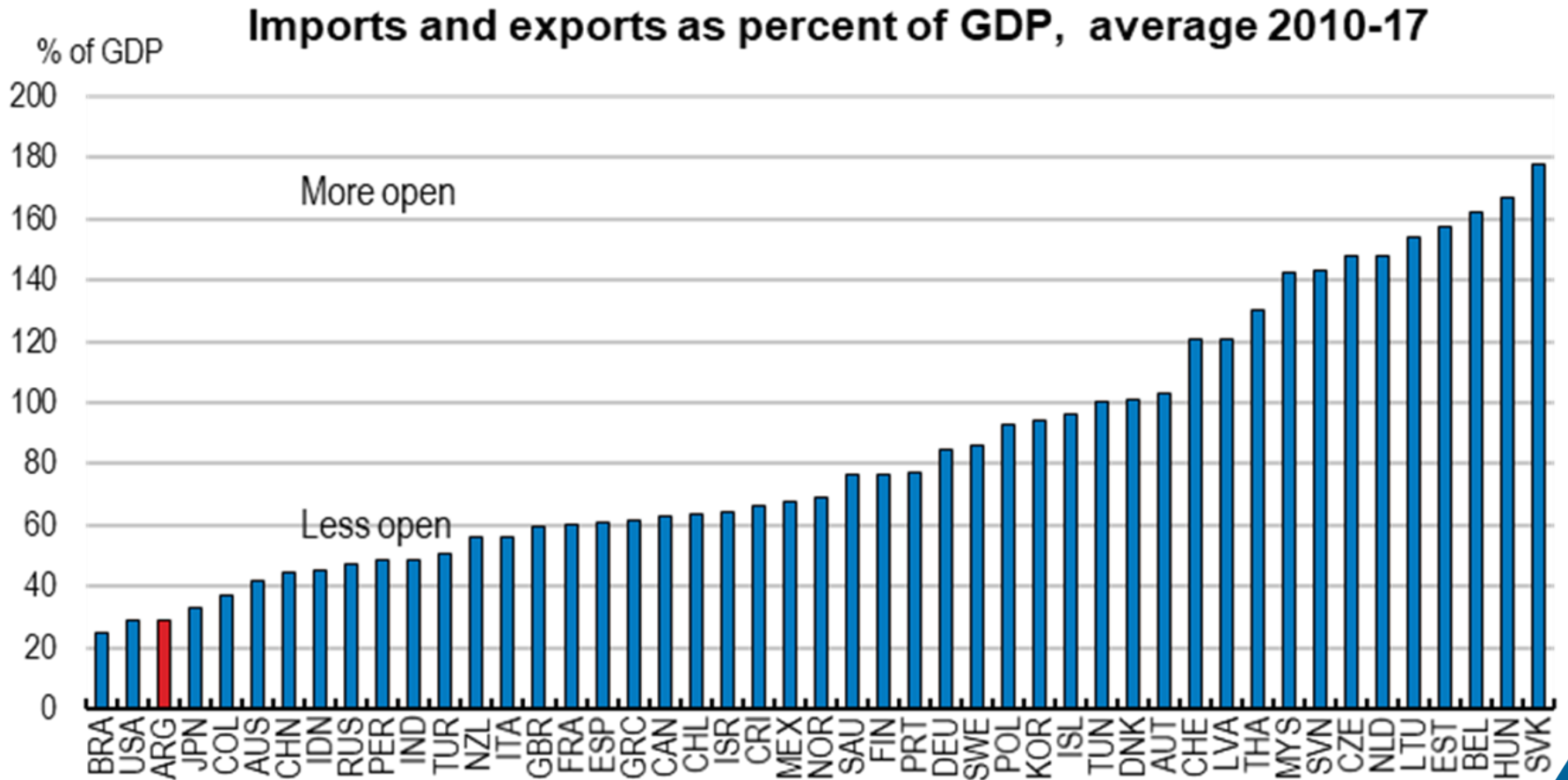
- Reduce domestic regulatory barriers to entrepreneurship and market entry, including at the level of provincial and local governments.
- Extend the unemployment insurance scheme with individual accounts currently used in the construction sector economy-wide while reducing severance costs.
- Keep expanding early childhood education.
- Strengthen the operational and financial autonomy of the anti-corruption office and guarantee adequate resources to fulfil its mandate.



Fostering the integration into the world economy

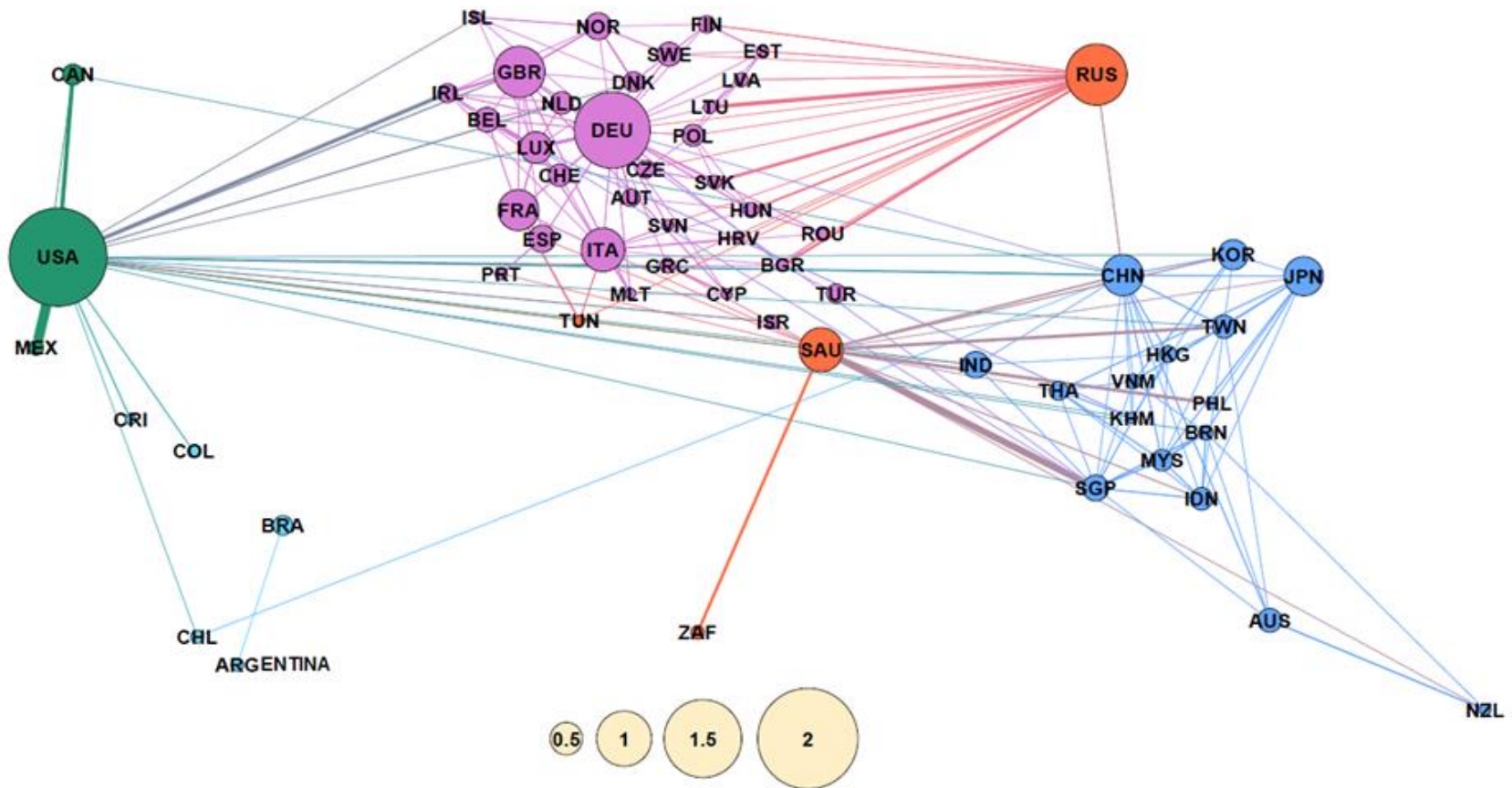


Argentina is not well integrated into the world economy





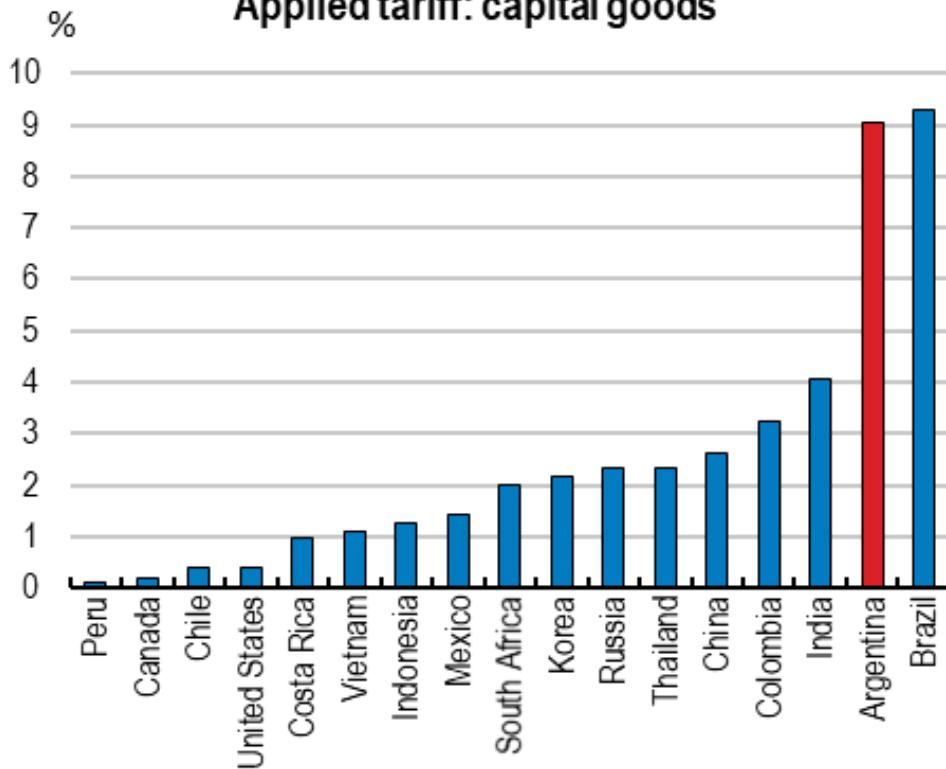
Argentina has remained on the sidelines of global value chains



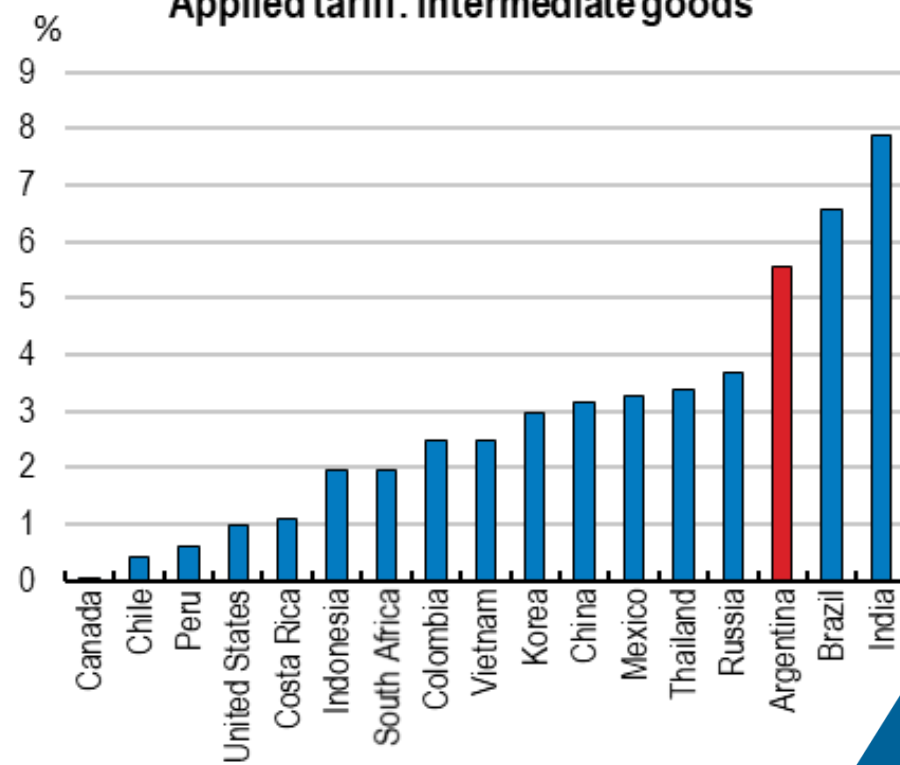


Tariff protection is high, especially for capital and intermediate inputs

Applied tariff: capital goods



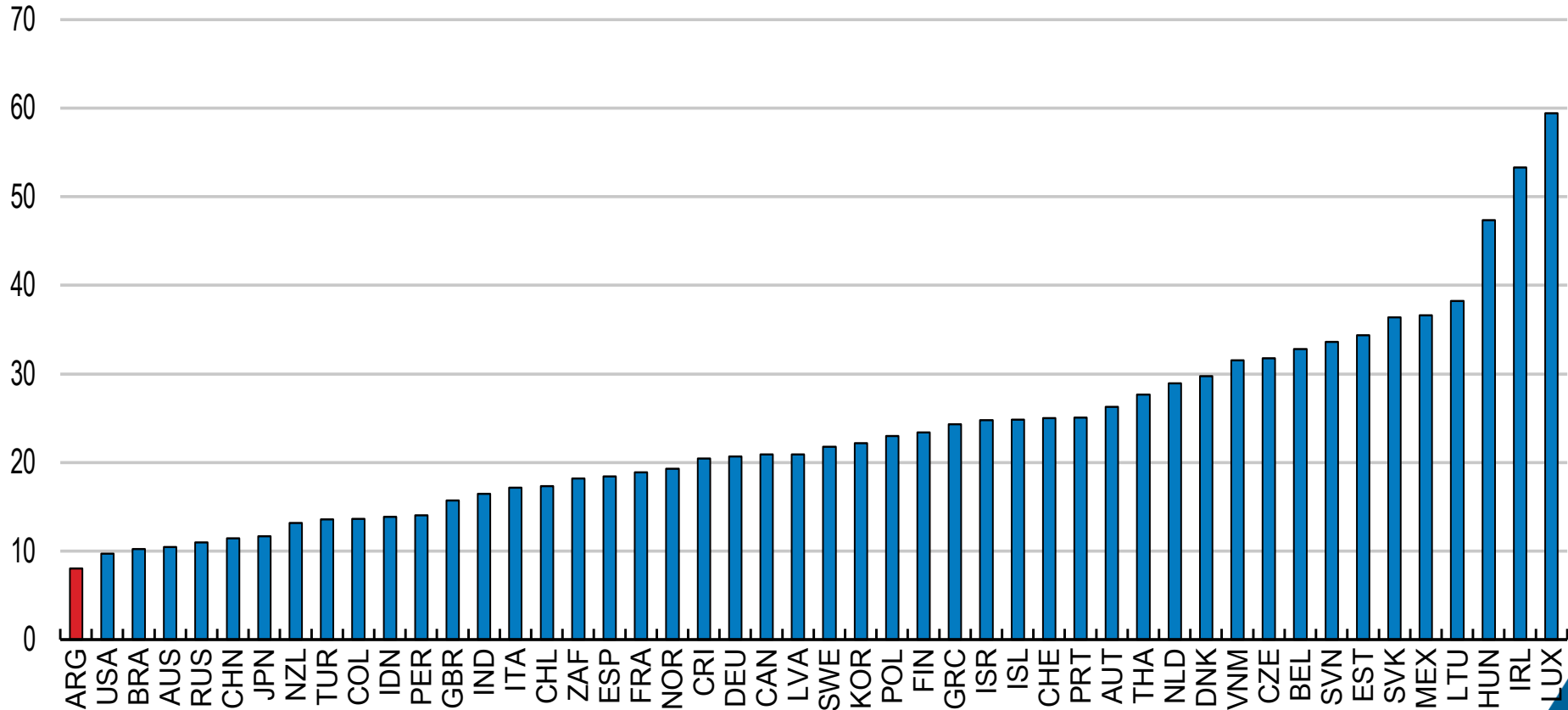
Applied tariff: intermediate goods





Argentinian firms use few imported intermediate inputs

Share of imported intermediate inputs over total inputs (in %)

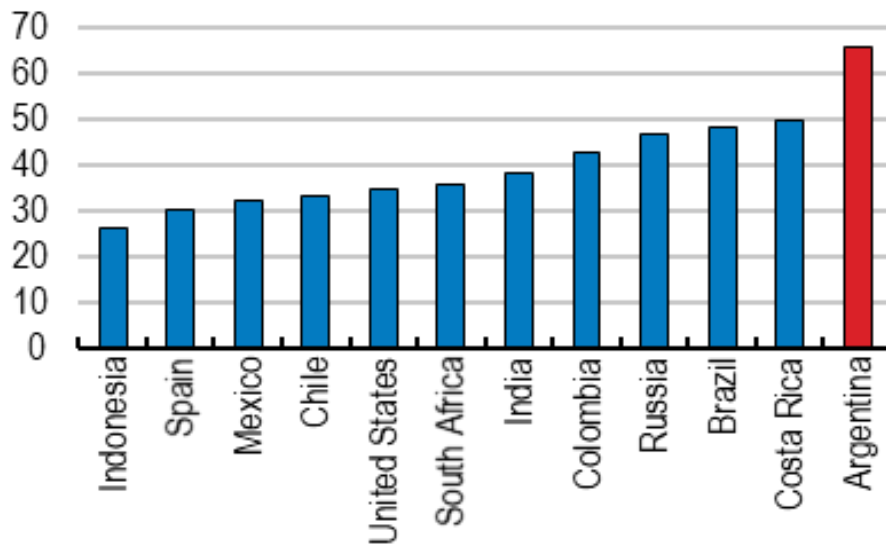




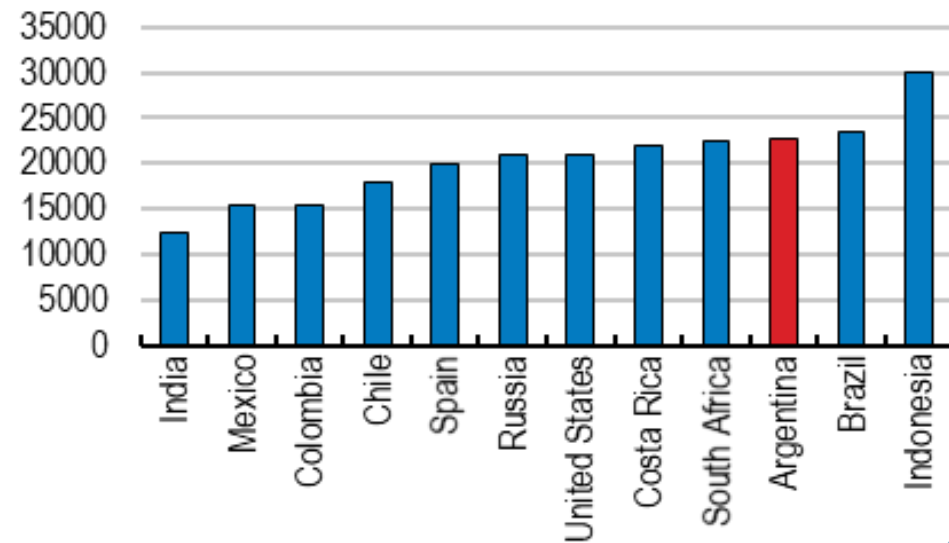
Prices are high in international comparison

Prices in current USD for the year 2017

Clothing



Passenger vehicle

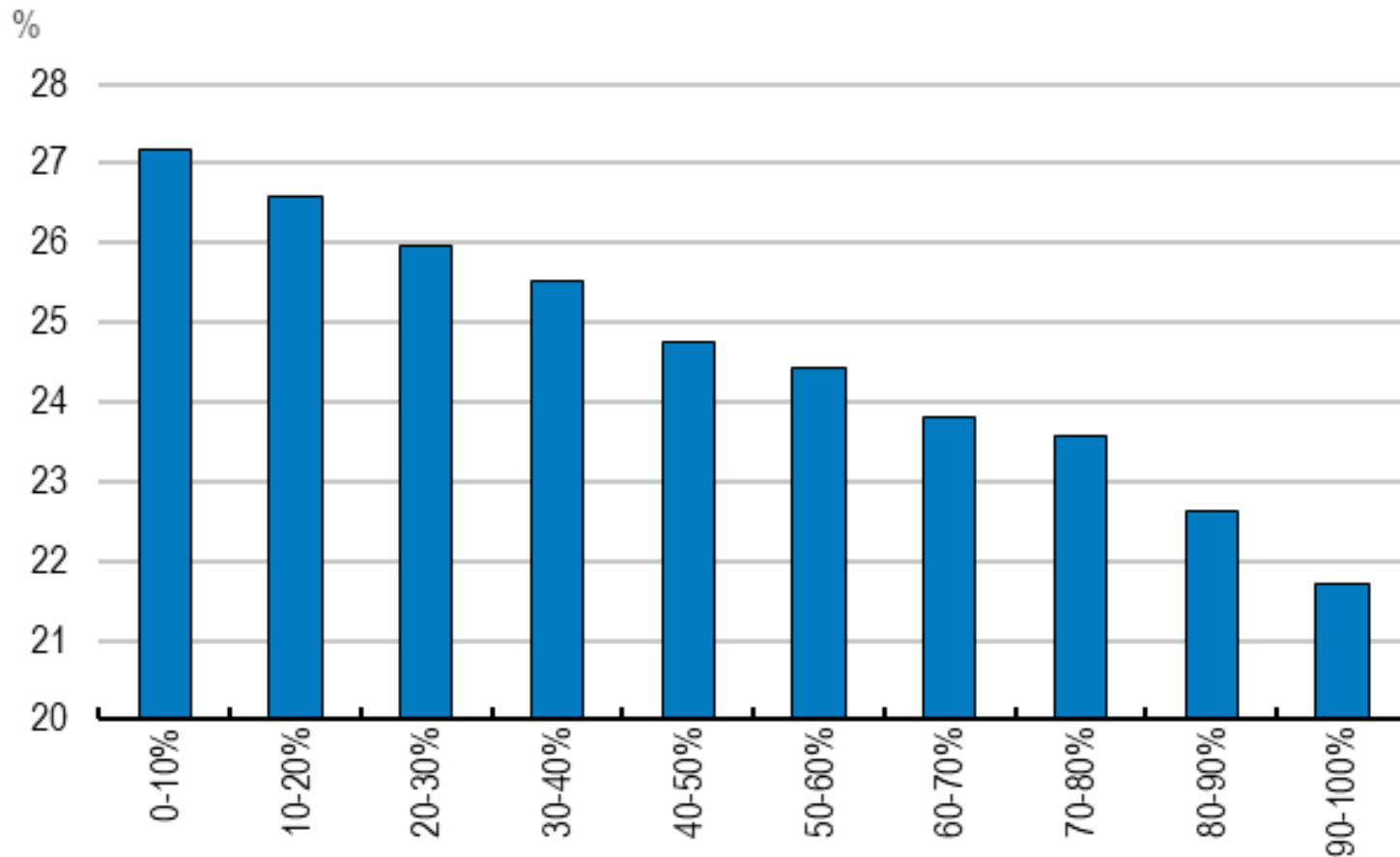


Source: OECD computations based on Numbeo data.



Potential consumer benefits from lower trade barriers would benefit the vulnerable

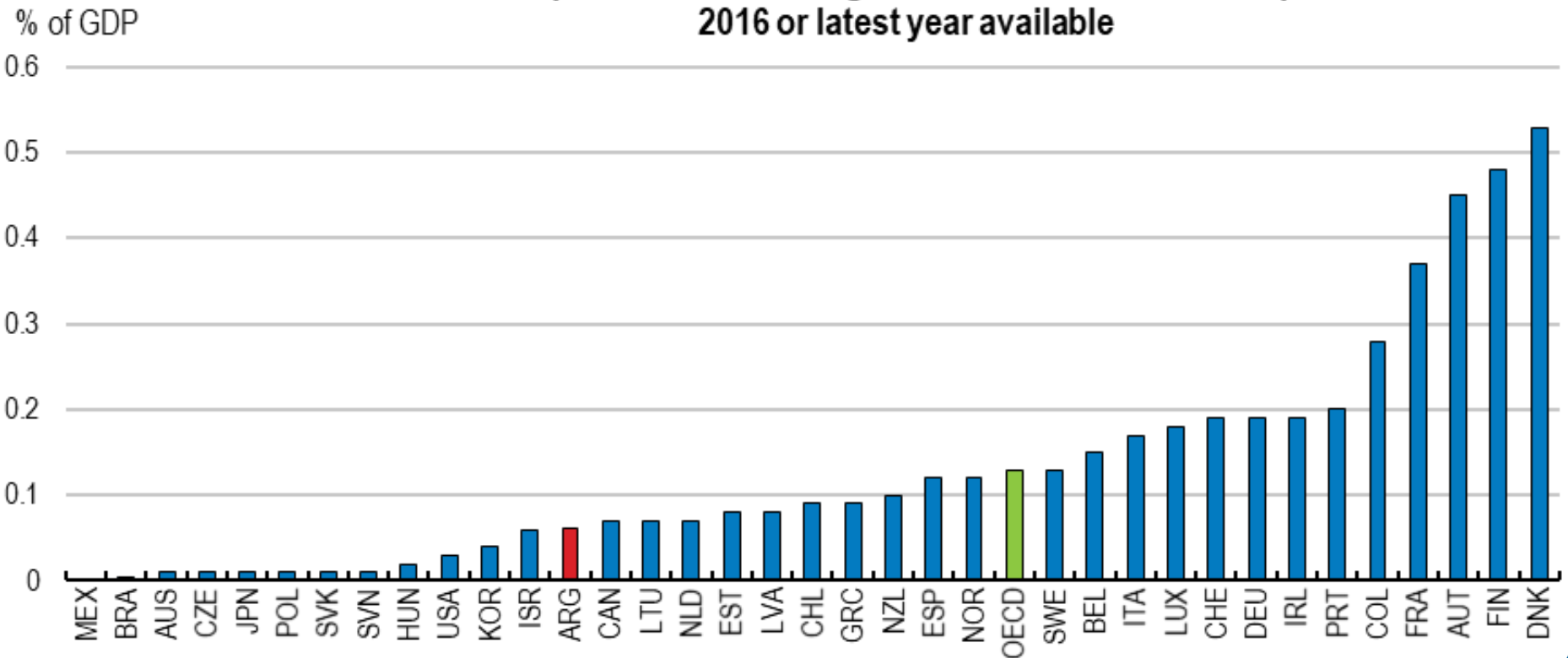
Increases in real purchasing power (relative to total expenditures) due to a reduction of tariffs and/or non-tariff measures (NTMs) by 100% for each household income decile (in %)





Training and social protection are key

Public expenditure on training-based active labour market policies
2016 or latest year available



Source: OECD database on public expenditure and participant stocks related to active labour market policies; ILO.



Key recommendations- *Fostering the integration into the world economy*

- Reduce tariff and non-tariff barriers, starting with capital goods and intermediate inputs.
- Bolster adult training programmes and vocational education and training (VET) to ease the transition.

More information...

<http://www.oecd.org/economy/surveys/argentina-economic-snapshot/>



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