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Country Briefs



International
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ARGENTINA'S RESPONSE TO THE CRISIS

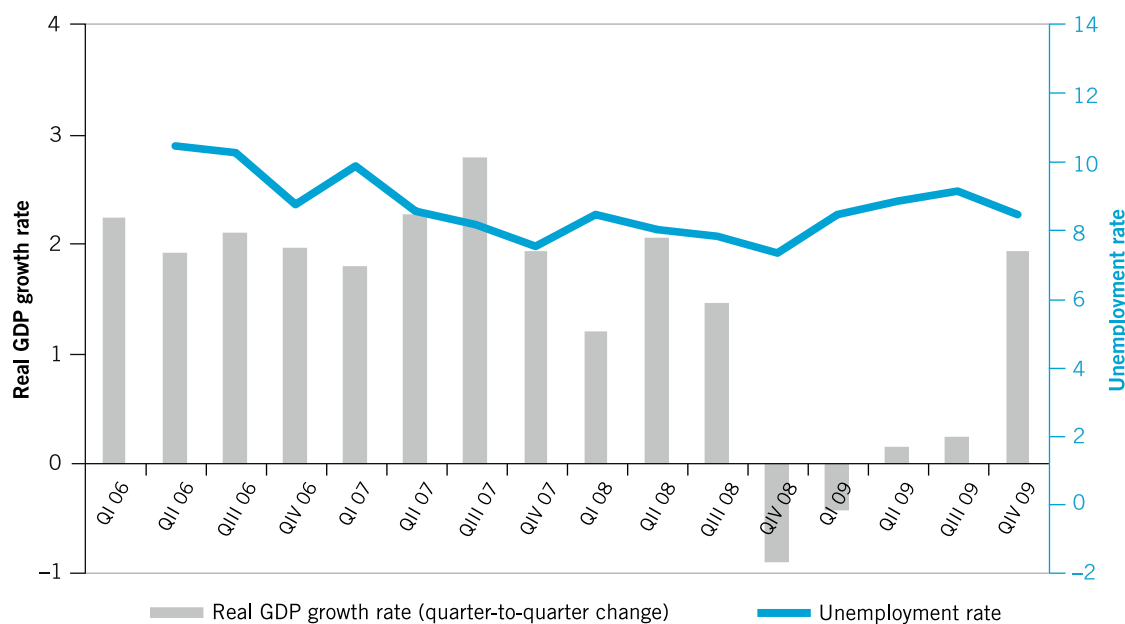
Labour market measures help hold down job losses

Argentina's economy had been enjoying a prolonged recovery from its 2002 economic crisis when the global crisis hit in late 2008. From 2003 to 2007 real gross domestic product (GDP) grew 8.8 per cent on average and the open urban unemployment rate, which reached 19.7 per cent in 2002, had dipped below 8 per cent by the end of 2007 (figure 1). While GDP growth for 2008 was 3.8 per cent, by the fourth quarter, the global crisis started to have an impact on the Argentine economy as seasonally adjusted quarterly GDP fell by 0.9 per cent. Output growth remained weak in 2009 at about 0.5 per cent in 2009.

Declines in urban¹ employment-to-population ratios and the accompanying increases in the urban unemployment rate have been moderate compared to previous crises. By the fourth quarter of 2009, the unemployment rate of 8.4 per cent was 1.1 percentage point above the same quarter a year earlier (figure 1).

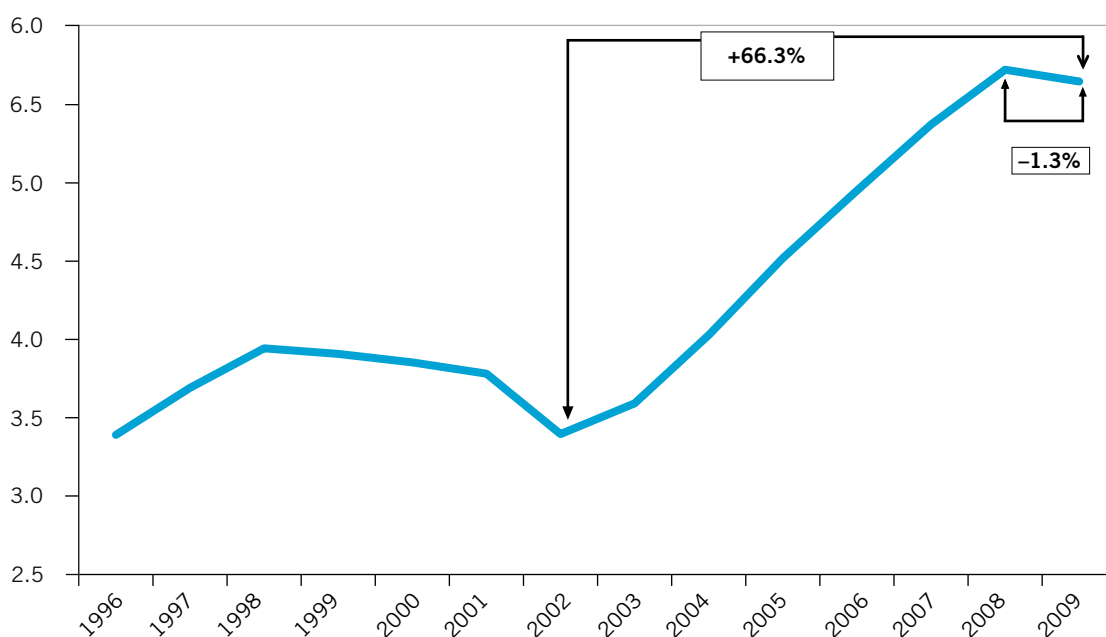
Private sector net salaried employment declined by 1.3 per cent in 2009 (figure 2). However, this decline is quite modest when put in perspective with the overall gain of 66.3 per cent from January 2002 through November 2009. The decline in formal salaried employment from late 2008 reflects a fall in new hiring by private firms as well as job cuts in the early months of the crisis. Argentine Ministry of Labour (MOL) data show that from the

Figure 1. Urban unemployment rate and real GDP growth rate, by quarter, 2006–2009 (percentage)



Source: INDEC. Real GDP data are seasonally adjusted; unemployment rate data are not seasonally adjusted. Urban unemployment rate refers to Argentina's 31 main agglomerations. Q1–QII 2006: urban unemployment rate refers to Argentina's 28 main agglomerations.

Figure 2. Evolution of formal salaried employment in the private sector (millions)



Source: ILO, based on data provided by MOL.
2009 data are provisional as of November 2009.

second quarter of 2008 to the second quarter of 2009 the proportion of new employee hiring declined by 1.4 per cent to 2 per cent while the proportion of registered employee separations declined 0.7 percentage points to 2.2 per cent. By the fourth quarter of 2009, the trend had reversed as new hires increased 0.2 percentage points to 2.5 per cent and registered employee separations declined 0.4 percentage points to 2.3 per cent.

Despite the rise in the urban unemployment rate and the fall in net employment since the end of 2008, massive layoffs have been avoided. In many cases the impact of the crisis has been mitigated by job retention measures, such as the granting of wage subsidies, shorter working hours and temporary layoffs. Goods-producing sectors have been most affected, particularly the construction industry and industries linked to foreign trade.

Stimulus package and policy responses to the crisis

The government's stimulus package has been far-reaching and comprehensive, comprised of monetary and financial policies, a fiscal stimulus package, and labour market and social protection measures. On the fiscal side, it has included both major structural policies, such as the renationalization of the pension system and a large public works programme, and temporary measures aimed at providing relief to specific industries, maintaining employment and protecting vulnerable people.

The single most significant fiscal policy measure was the renationalization of the pension system at the end of 2008, which was in large part privatized in 1994. The pension assets which had been administered by private firms, totalling about 10 per cent of GDP, were transferred to the National Social Security Administration (ANSES) and a sustainability reserve fund was created. Resources for public works were also increased as the 2009 budget doubled the 2008 allocations for projects to finance housing, hospitals, roads and sanitary systems, among others. Credit schemes were directed at the purchase of new and resale housing and durable goods to provide relief to specific distressed industries. Notable also among the sectoral relief measures was a loan from ANSES to General Motors to develop and commercialize a new car with locally produced inputs.

Other fiscal measures have focused on temporarily reducing the tax and social security burden on businesses. Tax credits have been offered to firms that invest in capital goods and infrastructure, with a significant part targeted at small and medium-sized enterprises, and employers have been granted reductions in their mandatory contributions (75 per cent during the first year and 50 per cent during the second year) for new or previously undeclared employees. The latter was expected to benefit up to 800,000 employees. As of September 2009, 169,000 contributors complied and 330,547 employees had been registered under the plan.

Employment retention and social protection policies have also taken precedence, particularly in the areas of preventing layoffs and expanding cash transfer programmes to focus on improving skills and employability

of beneficiaries and supporting vulnerable families in the informal economy. New and expanded programmes in these two areas are summarized below.

Preventing layoffs and retaining skilled workers

The global economic crisis has created the need to strengthen and extend programmes to maintain employment levels. Such programmes aim to prevent rising unemployment and promote job retention, allowing enterprises to keep their skilled workers. The Crisis Prevention Procedure (*Procedimiento Preventivo de Crisis* – PPC) and the Production Recovery Programme (*Programa de Recuperación Productiva* – REPRO) have been the two main measures used for this purpose.

The PPC was created in 1991 to provide a space for negotiation and agreement between employers and employees with government mediation. It is applied when an enterprise decides to adopt cost-cutting measures motivated by *force majeure* or financial or technological reasons. Use of the PPC gained momentum towards the end of 2008 to reduce layoffs and suspensions resulting from the crisis. Between October 2008 and May 2009, approximately 12,000 workers in affected firms requested PPC intervention. In about 70 per cent of cases, the enterprises chose to suspend or shorten working hours instead of laying off workers. Firms in the metallurgy, textile, automobile and plastic production sectors were the most affected. A number of firms also opted to join REPRO, described below.

In late 2008, REPRO, created during the previous crisis, was extended to 31 December 2009. REPRO offers workers with affiliated enterprises a fixed, monthly non-remunerative sum of up to 600 Argentine pesos² (ARS) for a period of 12 months, designed to complete the working wage for their category. It is paid directly by the National Social Security Administration. To access this benefit, firms must provide evidence of their current crisis situation, describe their intended actions to recover from crisis and commit to not laying off personnel. In practice, the duration of the subsidy varies, yet the amount granted is usually the maximum ARS600 per worker, which was about 43 per cent of the monthly minimum wage in effect in August 2009.

REPRO operates in all of Argentina's provinces, and the number of beneficiary enterprises and workers has increased since the beginning of the crisis. In 2008 the numbers were 448 and 22,846, respectively. By November 2009 coverage had extended to 2,658 enterprises and 139,034 workers. According to MOL estimates, if these subsidized jobs had been lost, employment from November 2008 to March 2009 would have fallen by 3.9 per cent instead of 2.8 per cent.

Expansion of cash transfer programmes

The current administration had been in the process of reviewing and reformulating its labour market and social protection programmes when the global economic crisis struck, including its large-scale cash transfer programme for unemployed heads of household (*Programa Jefes de Hogar*) created during the 2002 crisis. A timely new generation of programmes had started or was about to start operation in late 2008. Among these were programmes aiming to improve the employability and job prospects of many of the 2 million beneficiaries of the *Jefes* programme, to promote youth employment and to extend protection of children of families working in the informal sector.

Programmes to improve employability and job inclusion

Active since 2006, the Training and Employment Insurance (*Seguro de Capacitación y Empleo* – SCE) assists unemployed heads of households with education, training, workfare and self-employment opportunities. The SCE is a non-contributory transfer of approximately US\$70 that is limited to two years. As a response to the crisis, the government decided to extend the benefit for up to six additional months and offer it to unemployed workers who have exhausted their regular unemployment benefits. As of June 2009, the SCE had provided 61,420 beneficiaries with cash transfers and employment-related assistance.

In May–June 2009, the MOL opened the Youth with More and Better Work Programme (*Programa Jóvenes con Más y Mejor Trabajo* – PJMMT), a youth employment and skills training programme for 18 to 24-year-olds. The programme assists beneficiaries to finish mandatory schooling, gain experience and skills through internships and other work experience, and find a productive activity either as an employee or through self-employment. As of July 2009, the number of beneficiaries of PJMMT reached 62,753, and the programme was expected to cover 100,000 beneficiaries by the end of 2009.

Municipal employment offices (MEOs) have become a focal point for implementing programmes such as the SCE and PJMMT. The MEOs, which opened in 2005, were conceived to give local governments a leading role in assisting their own communities. From 2005 to the first quarter of 2009, some 282 MEOs had assisted over 1.3 million beneficiaries.

Expansion of child benefits to vulnerable families in the informal economy

While social protection linked to formal employment has a long tradition in Argentina, until this year between 4 and 5 million children whose parents are unemployed or work in the informal sector have not been covered by family allowances. These families, often the poorest and most vulnerable, have had to rely on

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other, less comprehensive government programmes for assistance. To cover this gap, the Argentine government created a new programme, *Asignación Universal por Hijo para Protección Social*, which consolidates the transfers currently provided through different social programmes into one major child benefit programme administered by ANSES.

In October 2009 the new programme extended child benefits to unregistered workers earning less than the minimum wage, the unemployed, domestic workers and self-employed workers with very low incomes. It grants a monthly amount of ARS180 (about US\$47) per child, divided into an unconditional component (ARS144) and a conditional transfer (ARS36) requiring that parents provide proof that the child is attending school and, in the case of children under 5 years, that the child has received mandatory vaccinations.

The programme has had considerable impact. As of 1 December 2009, 2.7 million children and adolescents were registered, about 55 per cent of the eligible target population. Of these, 1.34 million were not previously receiving any social transfer payments. If the programme achieves universal coverage, the total cost of the non-contributory component would equal about 1 per cent of GDP.

Outlook and challenges

Argentina's policy responses have proved to be valuable when confronting the consequences of the global economic crisis. This is particularly true concerning the labour market. The moderate effects on employment are the result of a strategy that combines support to aggregate demand, expanding social transfers

and labour policies and programmes aimed at job preservation.

Growth in the fourth quarter of 2009 is expected to have been somewhat stronger than the very weak output growth recorded in the first three quarters of the year, given the revival of growth in some of Argentina's important export markets, Brazil and China in particular. Argentina's economic growth is anticipated to be led by manufacturing and agriculture, as the soya crop rebounded sharply from a serious drought in 2009. As of January 2010, Argentina's Central Bank projected that real GDP will grow between 3.6 and 4 per cent in 2010. Urban unemployment will continue to pose important policy challenges in 2010 despite recent improvements.

A major challenge for the government will be to accommodate economic policies to the new international macroeconomic and trade framework. A favourable international environment and financial conditions have encouraged the government to renew attempts to restructure its remaining defaulted debt. The proposal appears to have good chances of success and will allow better access to financial markets for the public and private sectors. A major public policy concern remaining for 2010 is inflation, which is expected to be higher than in 2009.

Challenges in labour and social protection policies consist of consolidating and deepening the institutional framework not only to reduce unemployment but also to continue reducing job precariousness and expanding social protection for those in need. The new non-contributory child benefit scheme for families in the informal economy is a positive initiative to reduce extreme poverty and fill the gap in building a social protection floor.

¹ Argentina's 31 main agglomerations.

² Exchange rate US\$1 = ARS3.75 (December 2009).