



Banco Central de la República
Argentina

"International Crisis and Policy Space: Challenges for Emerging Countries"

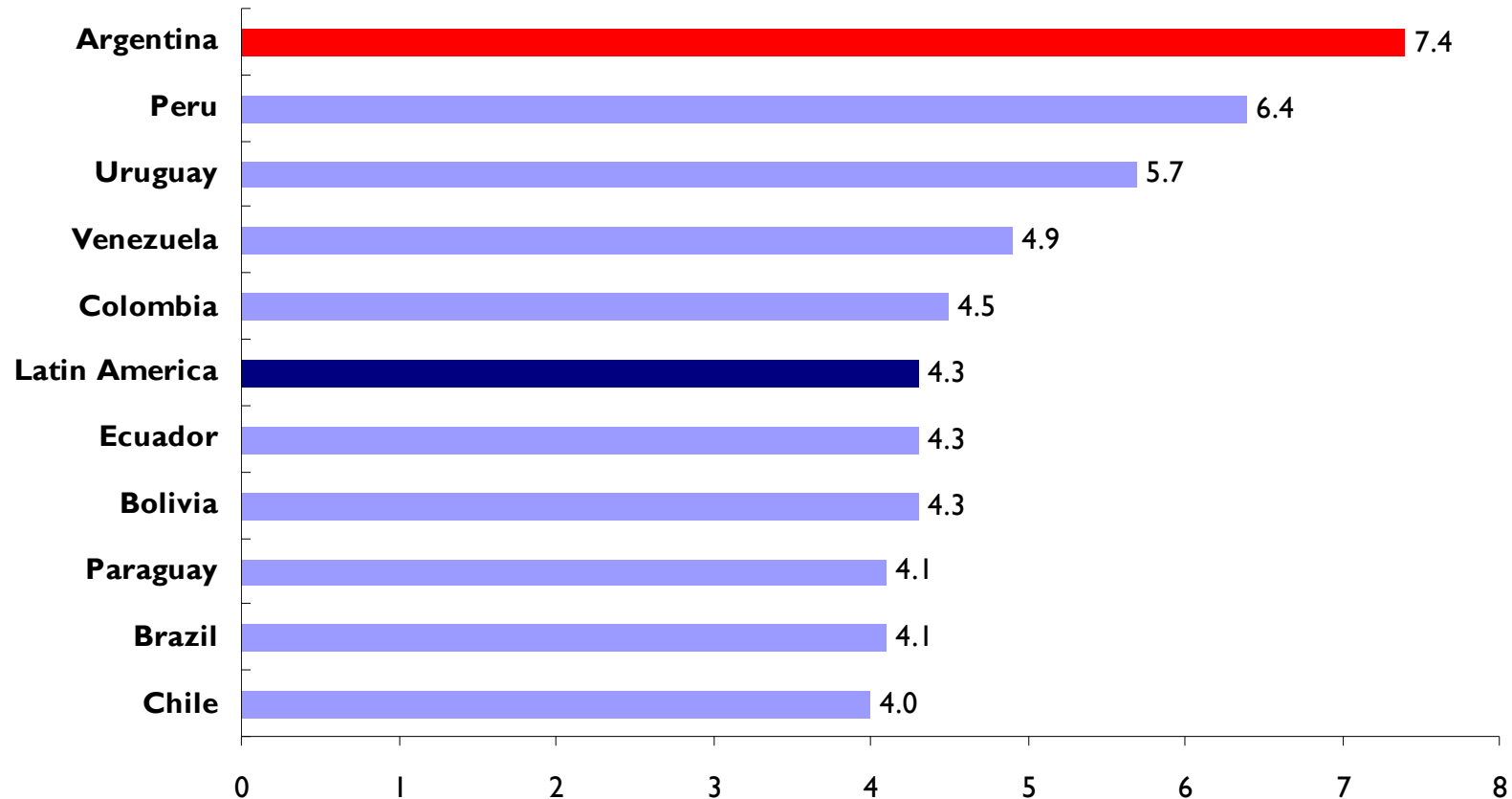
Mercedes Marcó del Pont
Governor
Central Bank of Argentina

*20th Annual Hyman P. Minsky Conference
on the State of the US and World Economies
New York City, April 13–15, 2011*



Due to domestic demand dynamism Argentina has been the leading case in Latin America.

GDP growth in selected LATAM countries
(annual rate of change in %, 2003-2010)



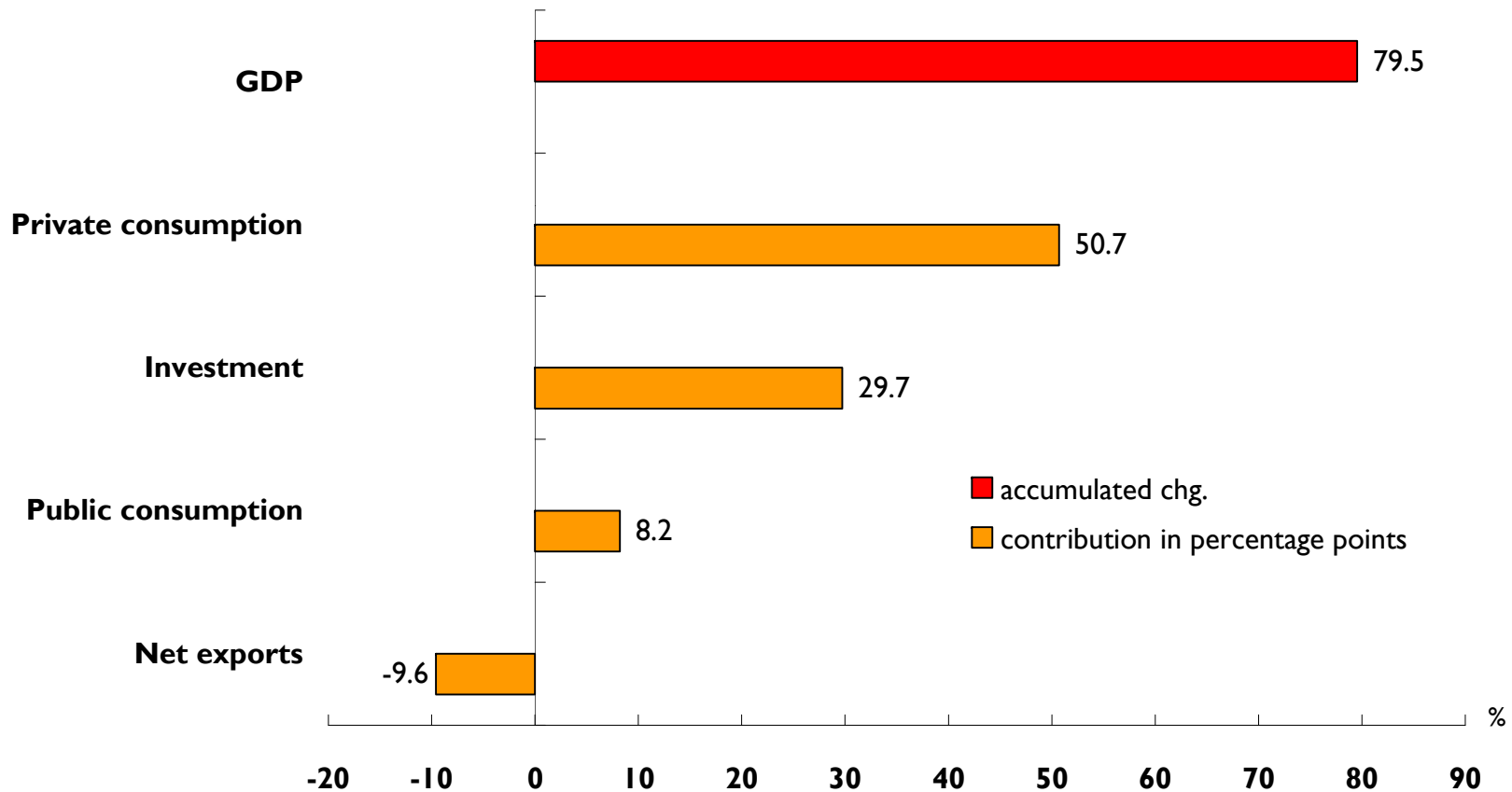
Source: IMF



Economic growth: domestic demand has been the main driver of growth

Argentina GDP growth. 2003-2010

(accumulated chg. and contribution by expenditure component)

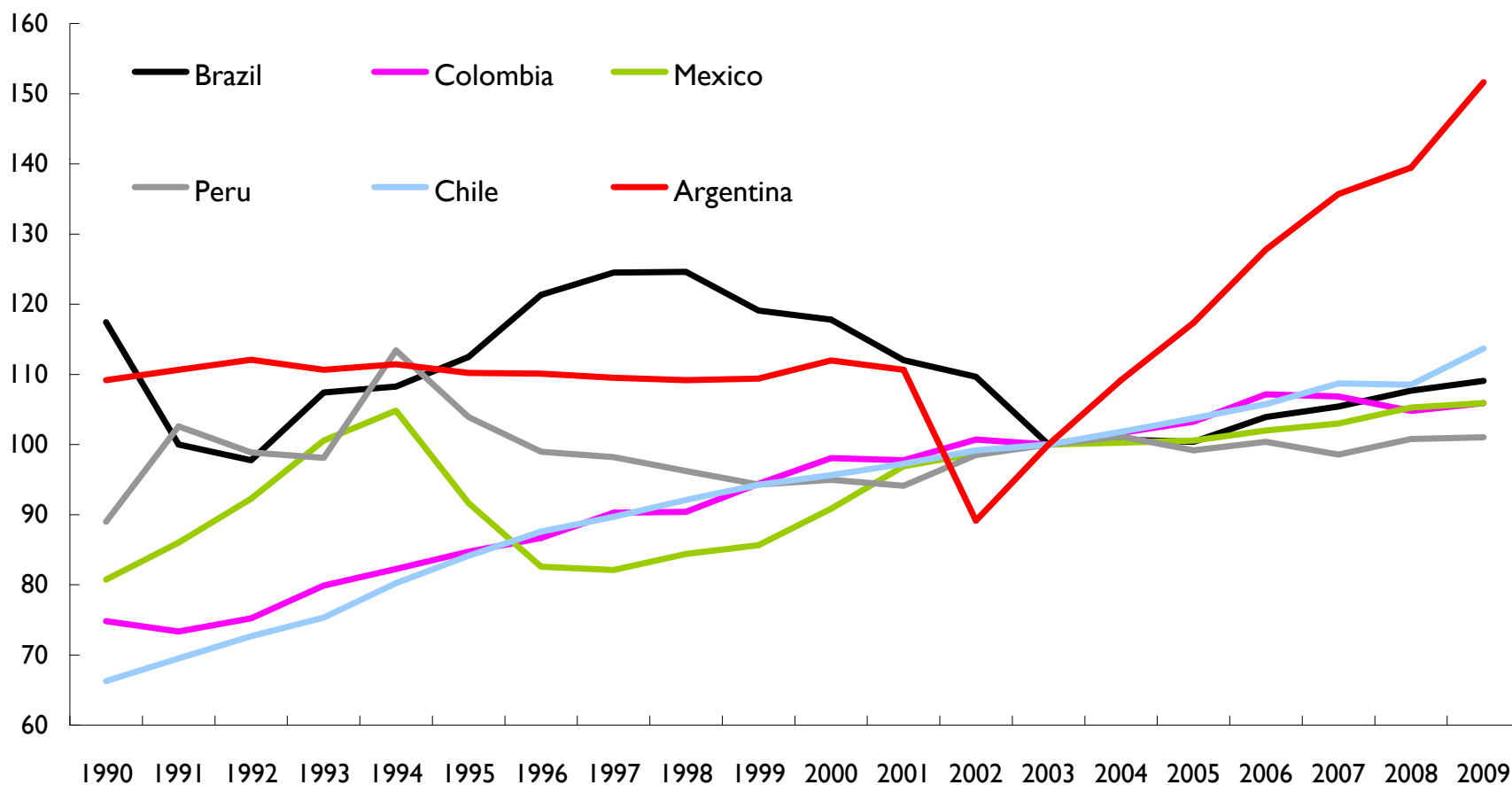


Source: INDEC



Economic growth and the role of domestic demand: real wages

Real wage in selected LATAM countries
(2003=100)

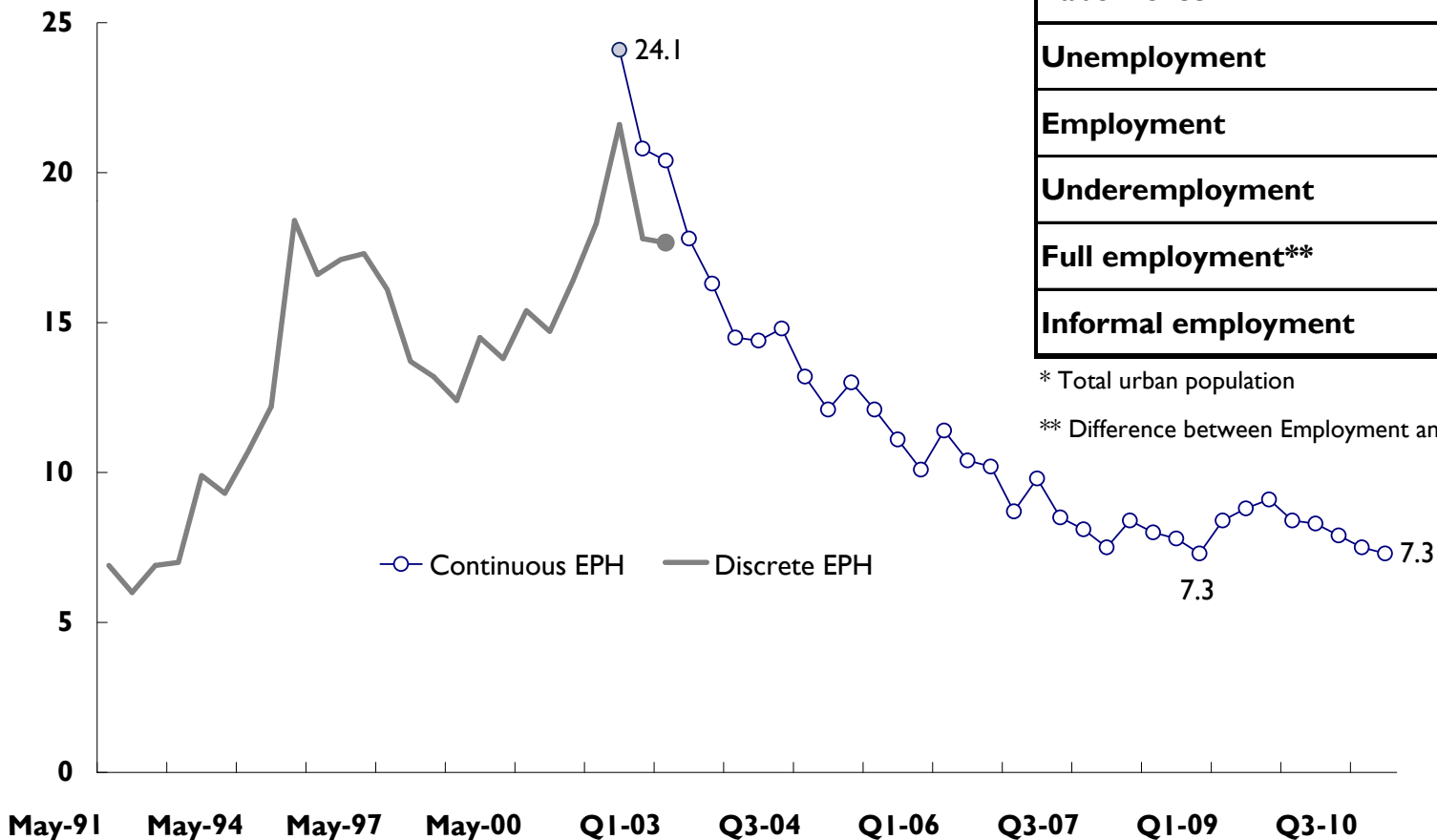




Economic growth and the role of domestic demand: employment

% of the
labor force

Unemployment rate



Labor Market Indicators*	% Change 2003-2010
Labor force	9.68
Unemployment	-61.46
Employment	27.24
Underemployment	-47.94
Full employment**	48.57
Informal employment	-27

* Total urban population

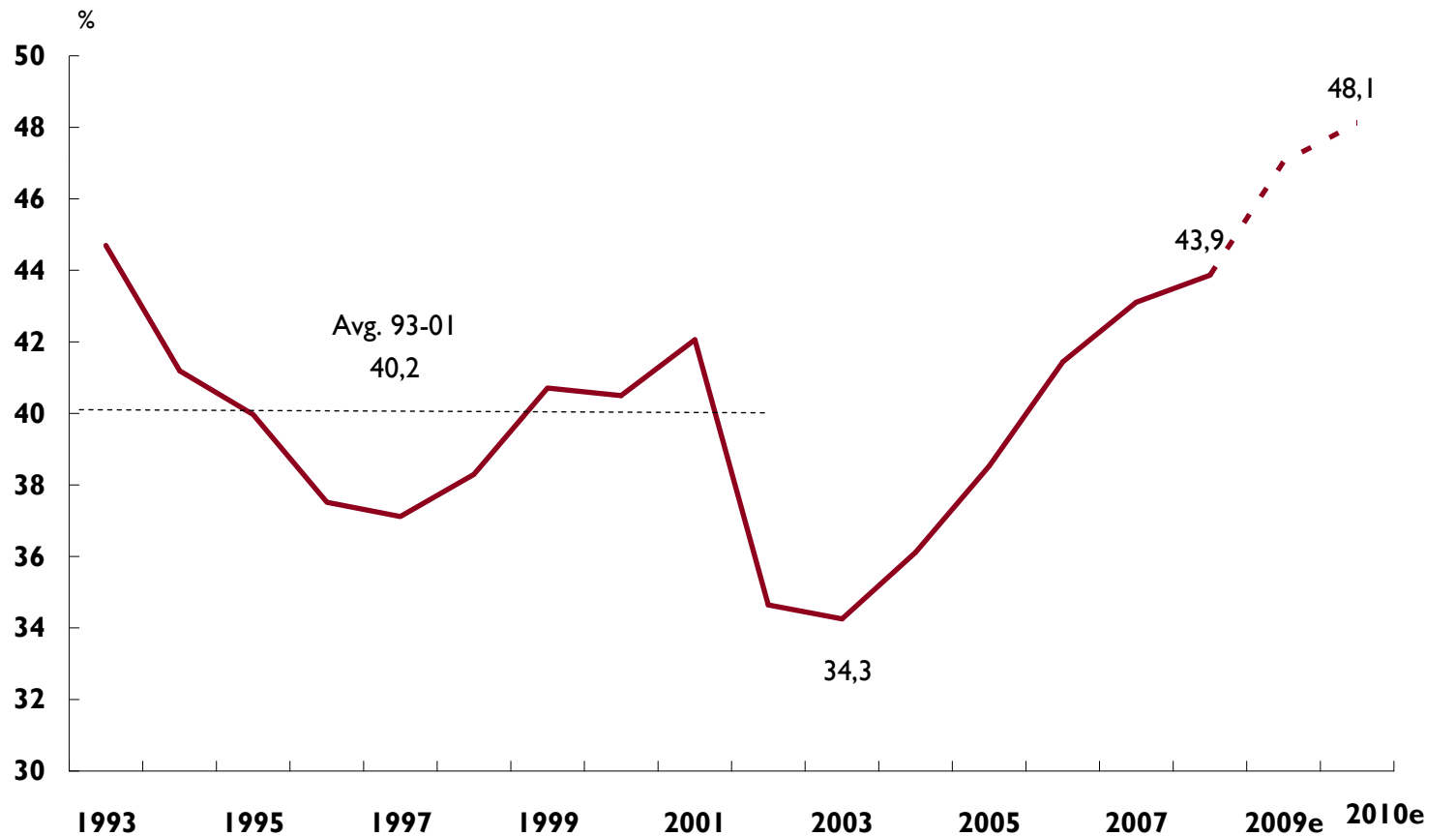
** Difference between Employment and Underemployment

Source: INDEC



Economic growth and the role of domestic demand: labor share in GDP

Labor share in GDP, Argentina 2003-2011



Source: INDEC

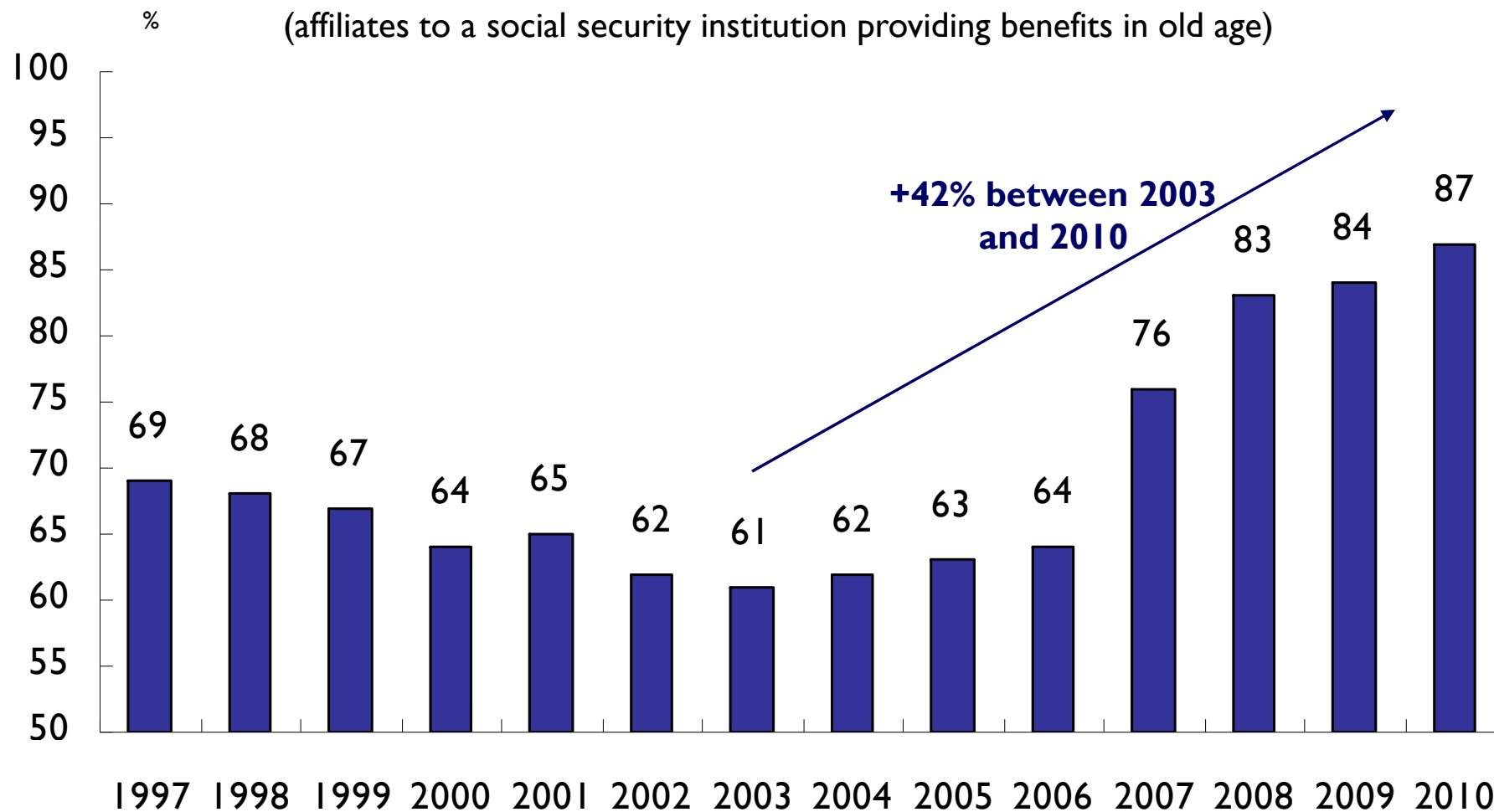
e: estimated



Economic growth and the role of domestic demand: social security

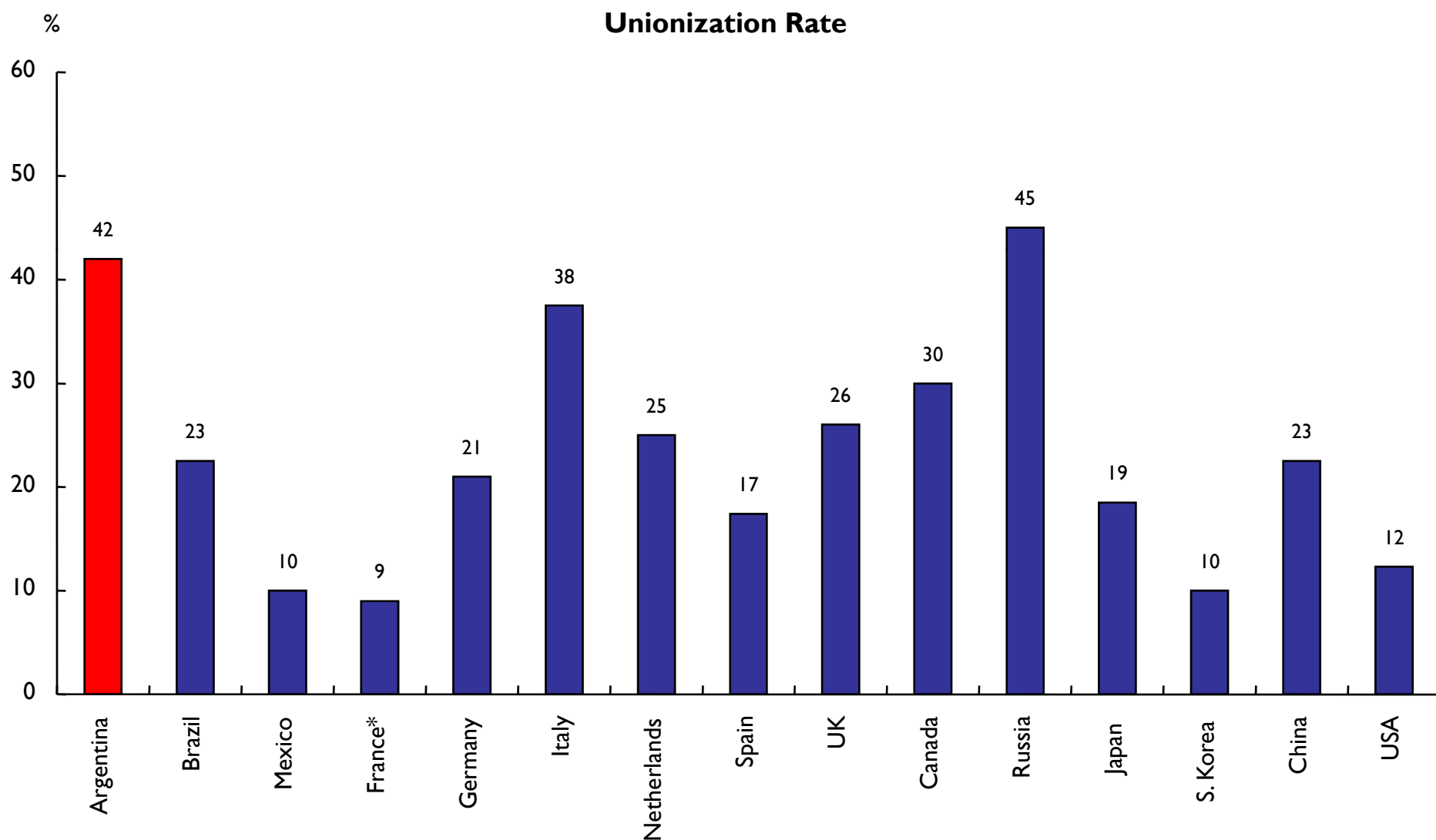
Argentina. Old age demographic protection ratio

(affiliates to a social security institution providing benefits in old age)





Economic growth and the role of domestic demand: unionization



*Although the unionization rate in France is below 10%, collective bargaining coverage is 92%. Source: ILO.

Economic growth and the role of domestic demand: income redistribution

Evolution of the ratio between the richest 20% of the population and the poorest 20% in selected LATAM counties*

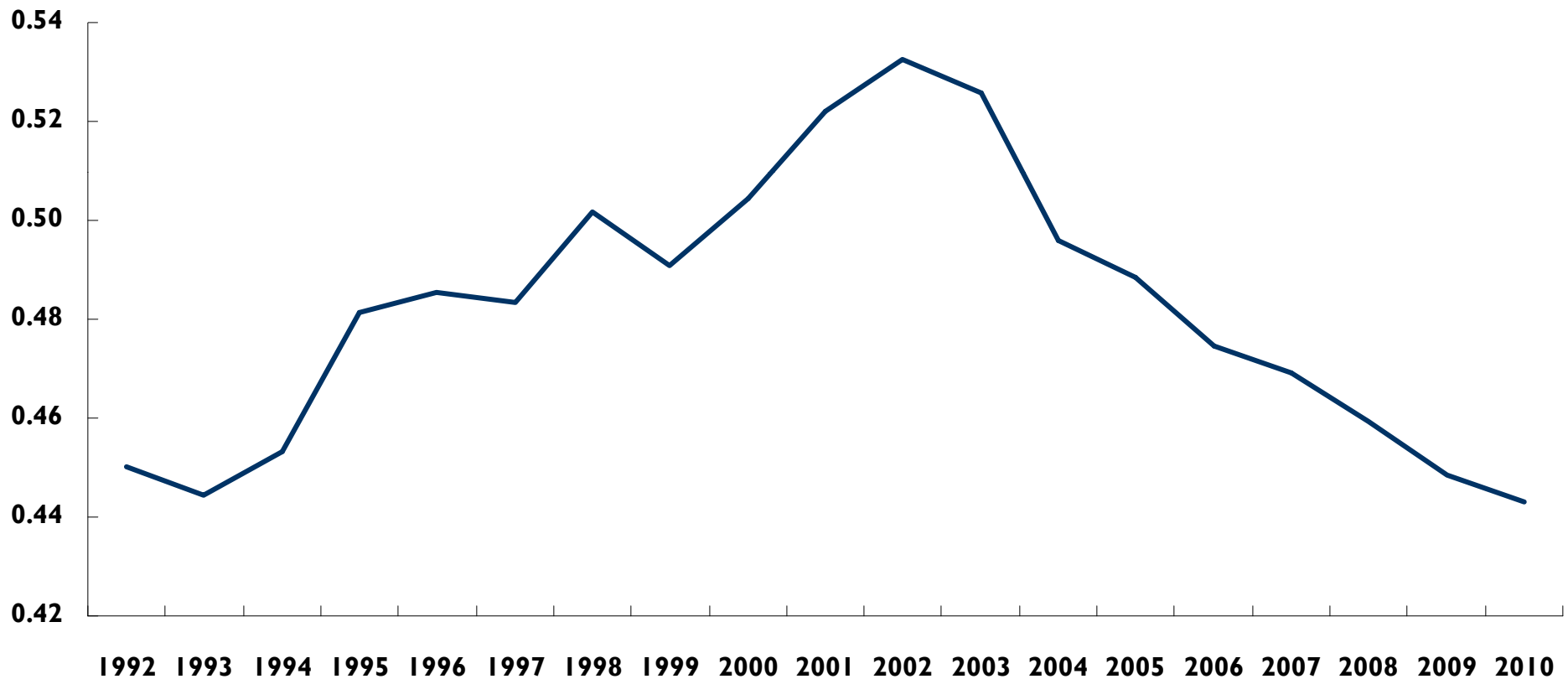
Year	Argentina	Brazil	Chile	Colombia	Costa Rica	Mexico	Uruguay	Paraguay
2003	18.14	22.60	15.55	18.88	14.02		10.13	21.21
2004	15.31	20.97		21.25	12.67	14.28	11.08	16.61
2005	14.70	20.45			12.20	14.76	10.51	17.16
2006	14.05	19.95	13.58	22.71	12.84	13.21	10.77	18.94
2007	12.78	18.95		22.09	12.29		11.16	17.98
2008	12.32	18.04			11.91	14.35	10.29	15.54
2009	12.25	17.77	13.32		13.55		10.17	15.69
2010	11.05							
Change 2003-2009	-48%	-27%	-17%		-3%		0%	-35%

* The ratio is constructed considering the household income per capita. Source: SEDLAC (National University of La Plata and World Bank)



Economic growth and the role of domestic demand: income redistribution

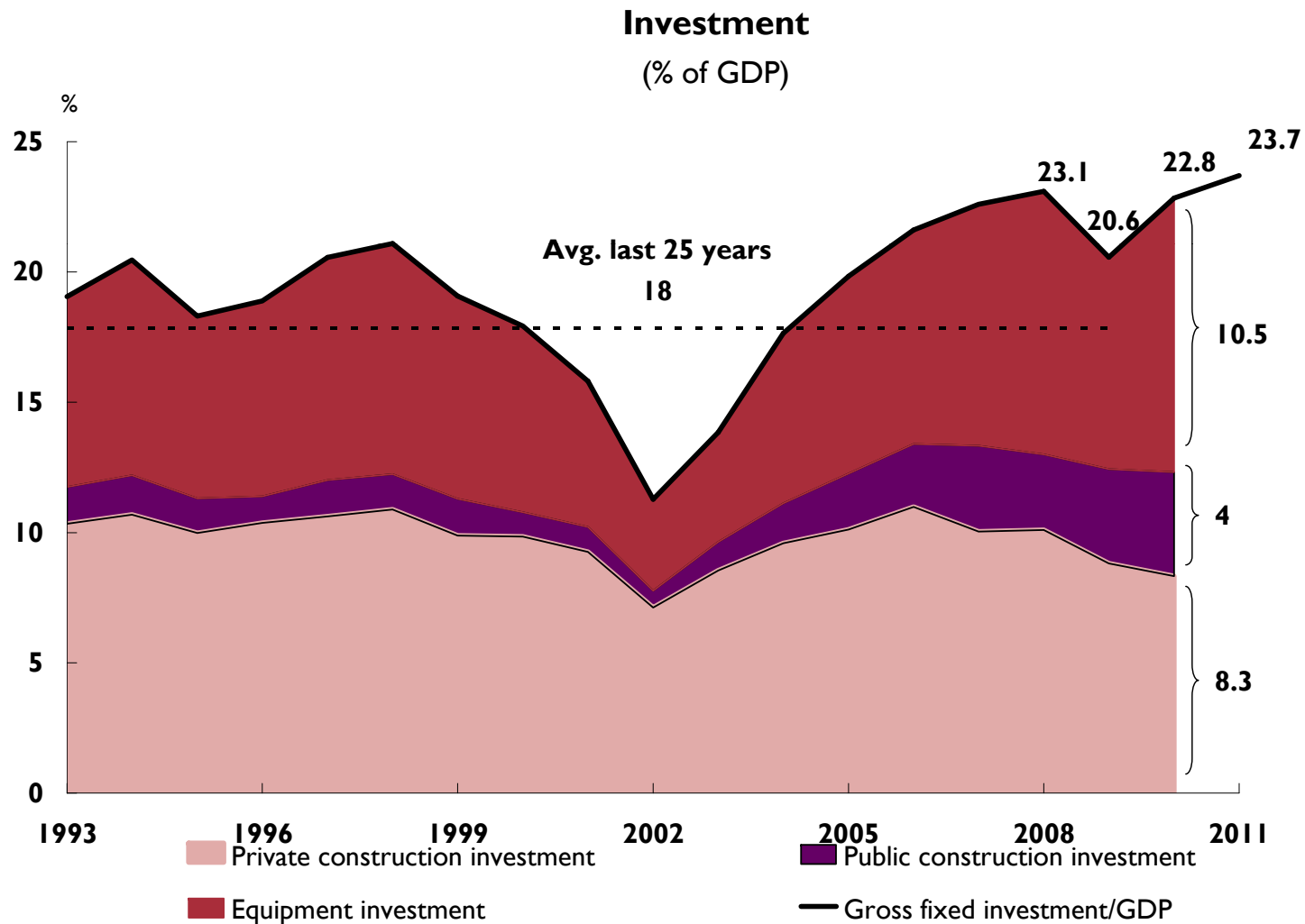
Gini coefficient in Argentina, 1991-2010



* The ratio is constructed considering the household income per capita. *Source:* SEDLAC (National University of La Plata and World Bank)



Economic growth and the role of domestic demand: investment is above its historical average

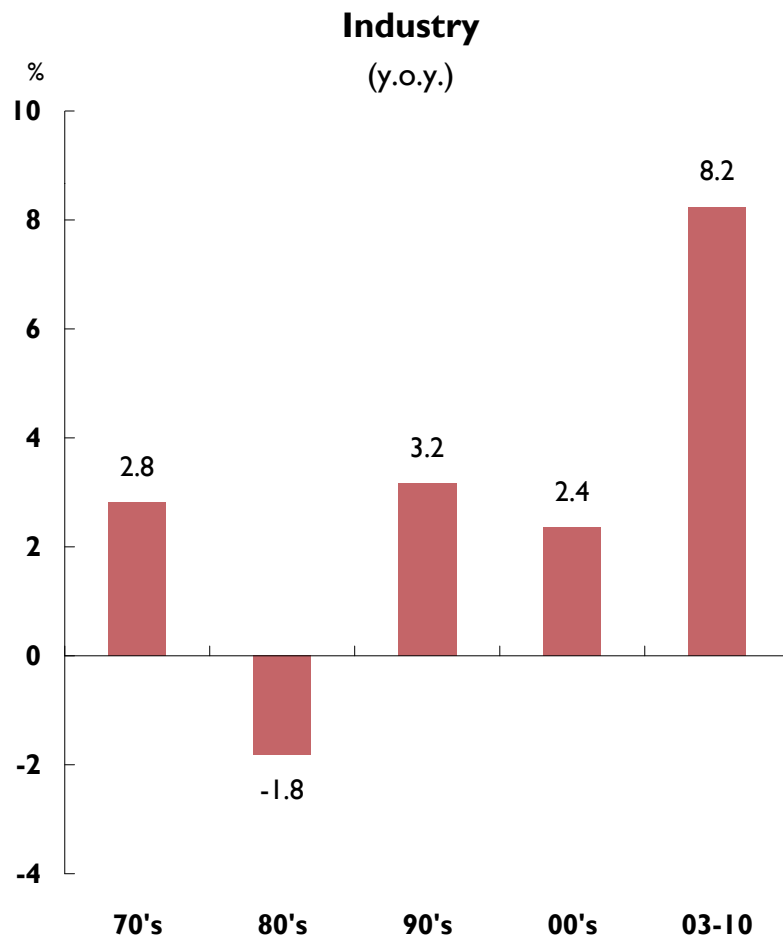


Source: INDEC

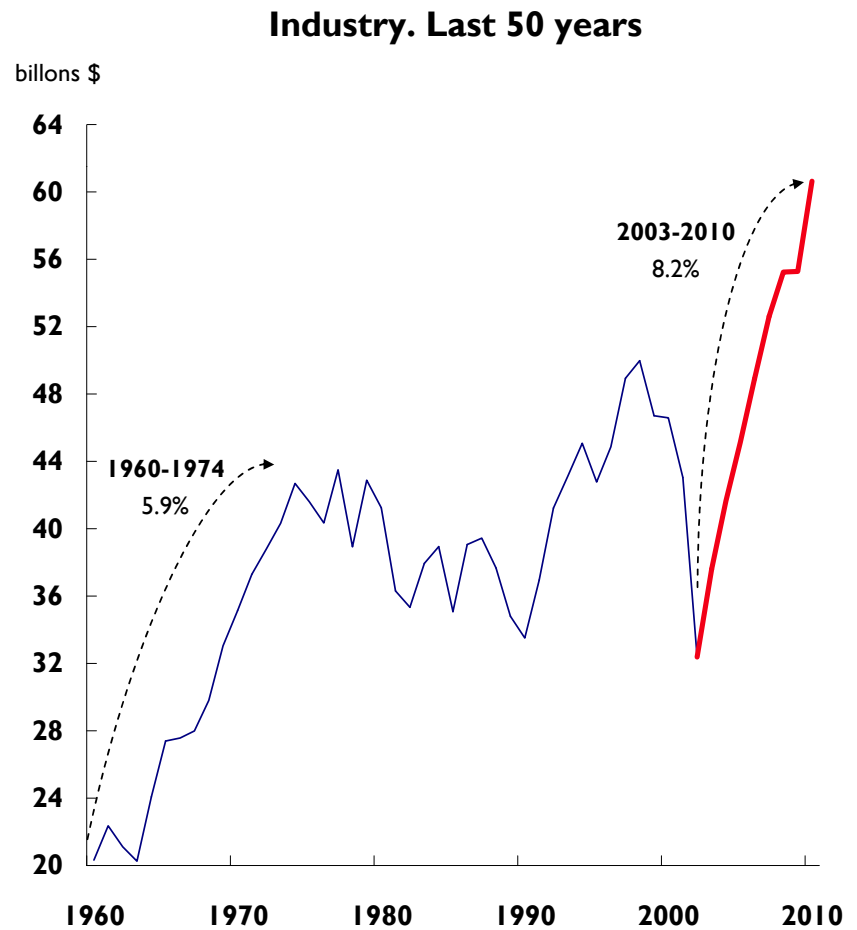


Economic growth and the industrial sector

Argentine catching-up story of the last seven years was not just “tail wind” due to commodity prices, industrial growth was higher than GDP growth.



Source: OJF and INDEC

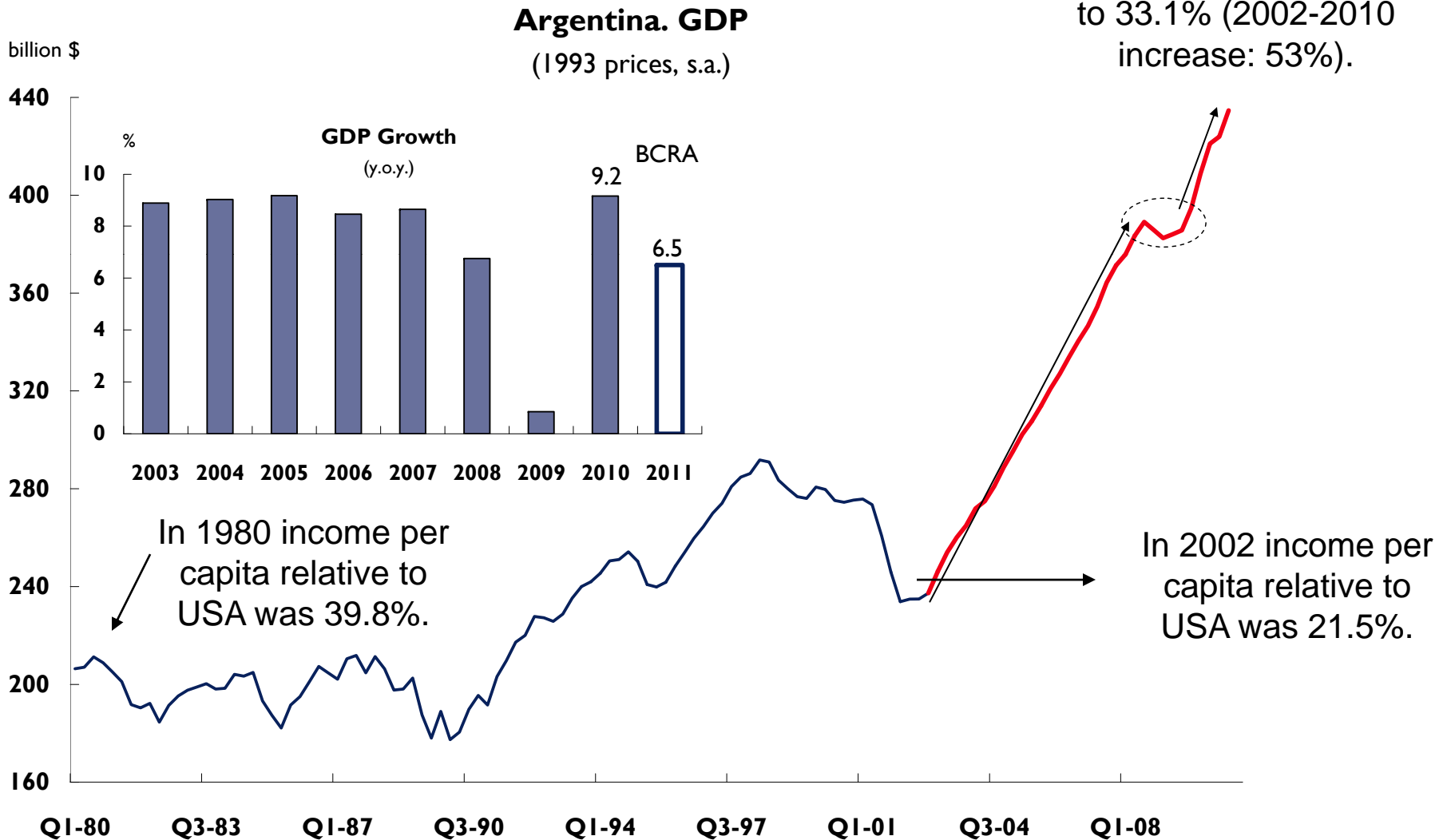


Source: OJF and INDEC



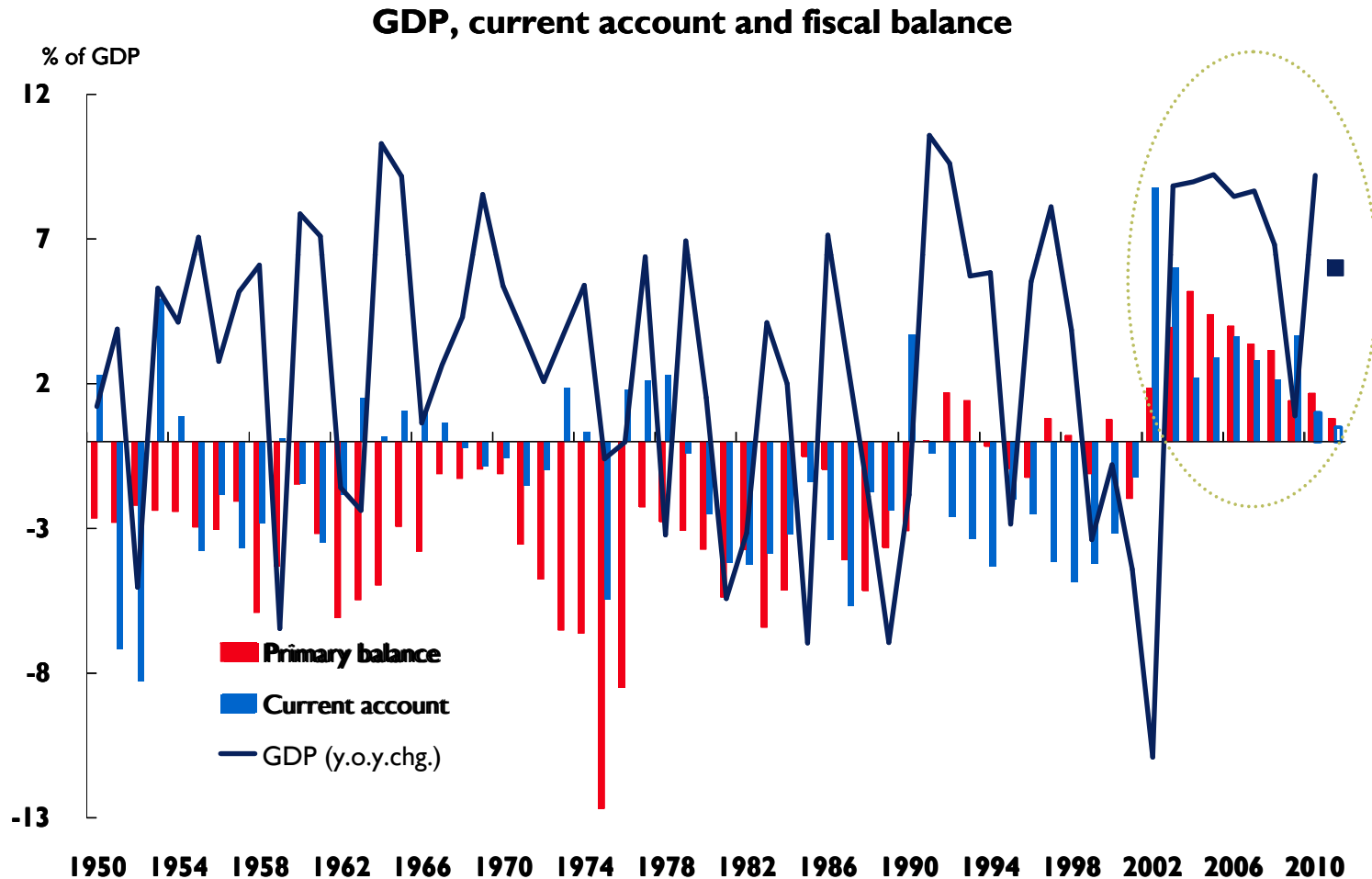
Closing the income gap, Argentina 2003-2011

In 2010 income per capita relative to USA recovered to 33.1% (2002-2010 increase: 53%).





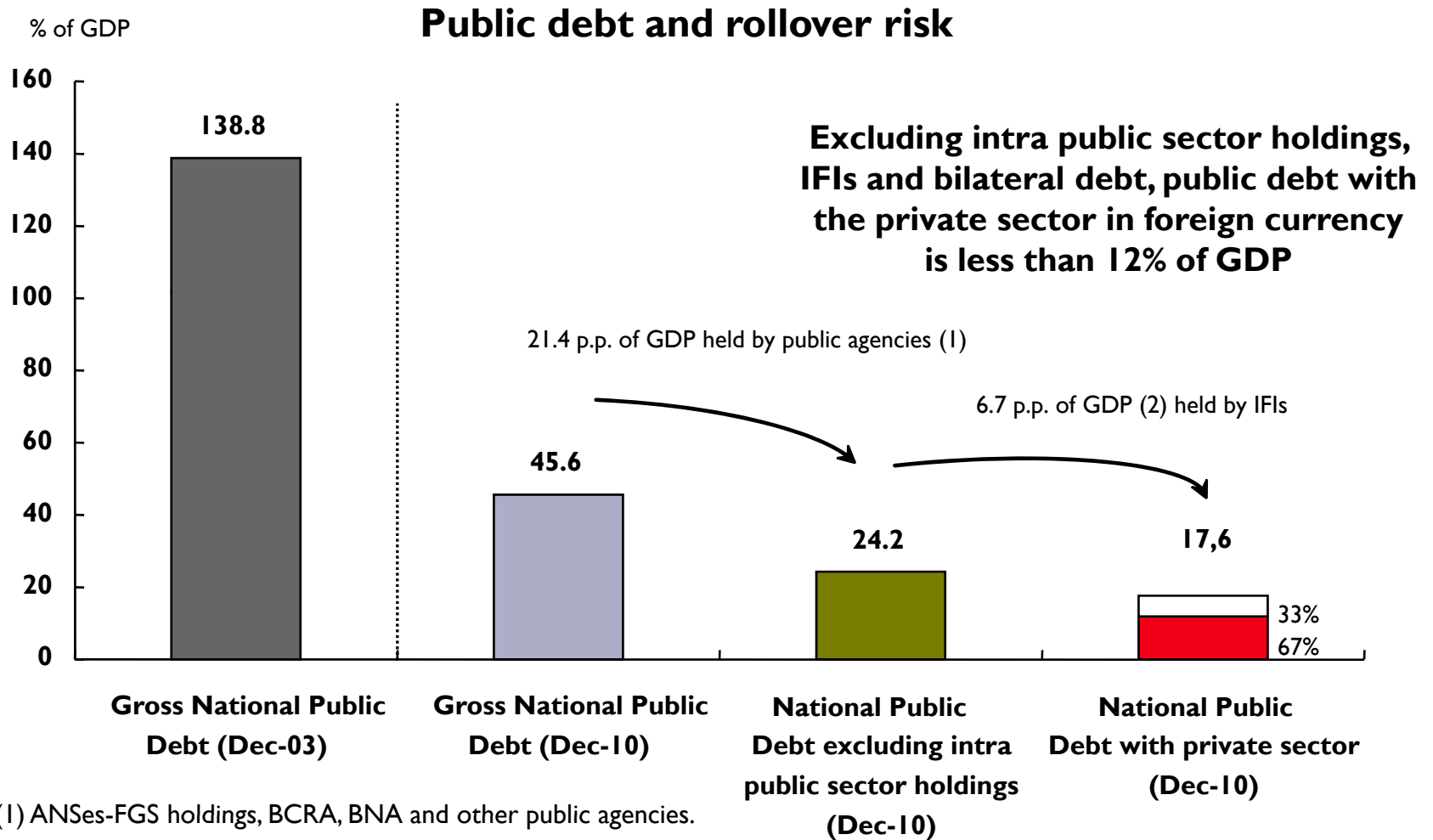
Fiscal balance has been supported by domestic demand, simultaneously Argentina has experienced sustained external surpluses. The period 2003-2010 is the only one in Argentine history that combined twin surpluses and high growth.



Source: BCRA from Treasury Secretariat and "Dos siglos de economía argentina" of OJ Ferreres.



Fiscal equilibrium and public debt reducing strategy (dis-indebtedness)



(1) ANSes-FGS holdings, BCRA, BNA and other public agencies.

(2) IMF, World Bank, IADB, Paris Club and other bilateral debt.

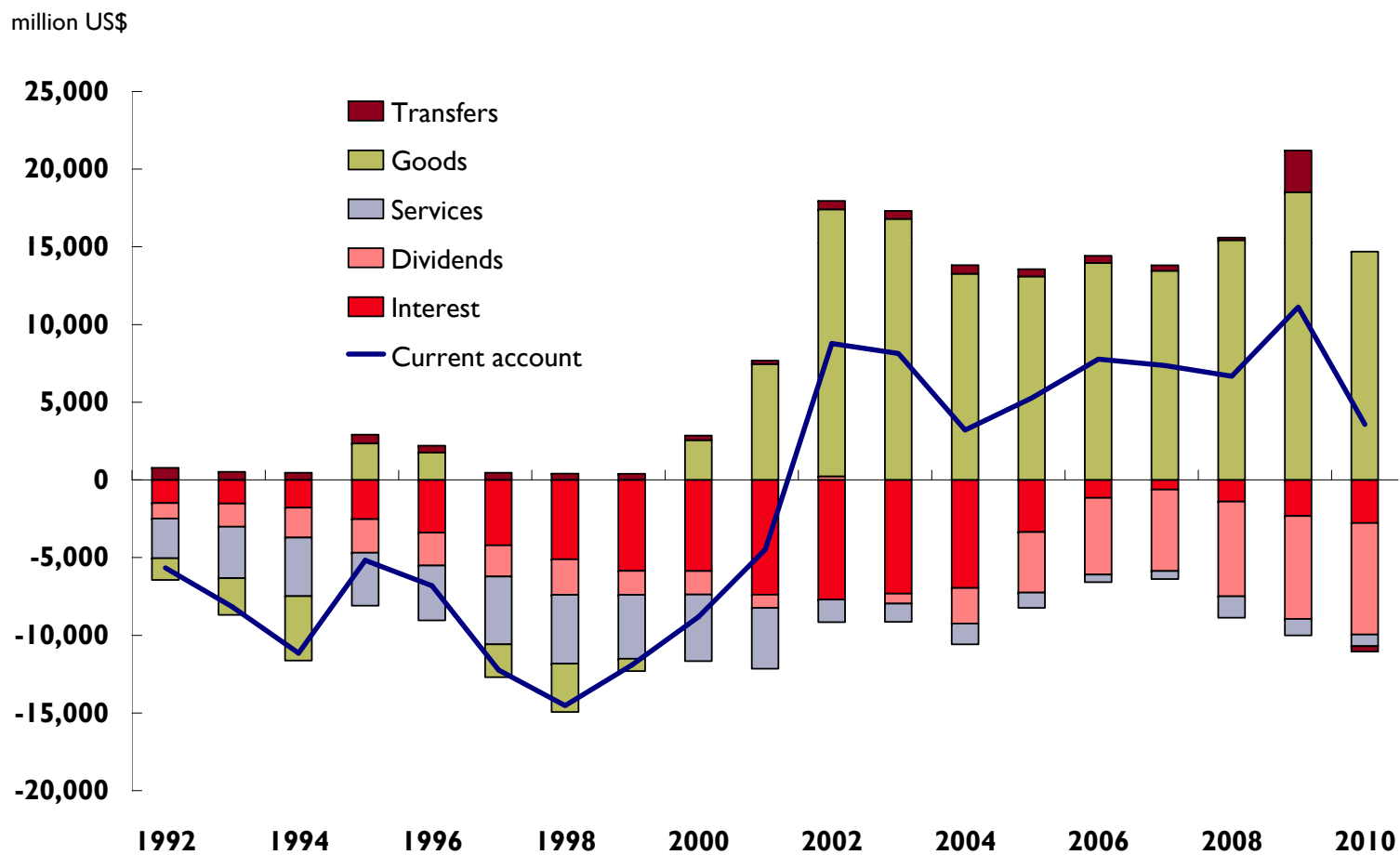
*Excludes holdouts.

Source: BCRA on Ministry of Economy and Public Finances and INDEC data.



External equilibrium: current account balance

Current account of the balance of payments



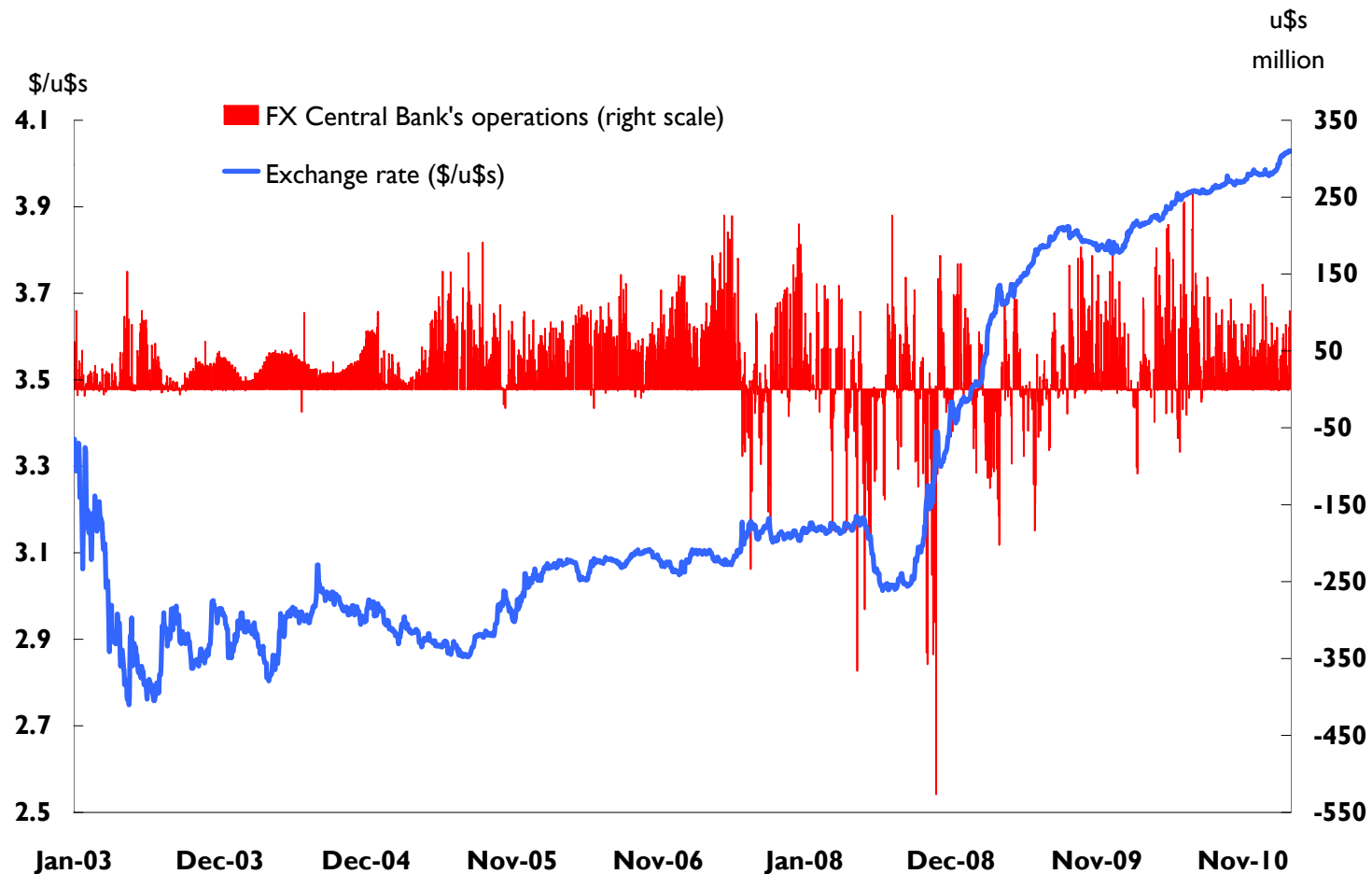
Source: INDEC



External equilibrium: exchange rate policy

Managed floating regime (intervention in the spot and future markets) in order to influence both exchange rate level and volatility

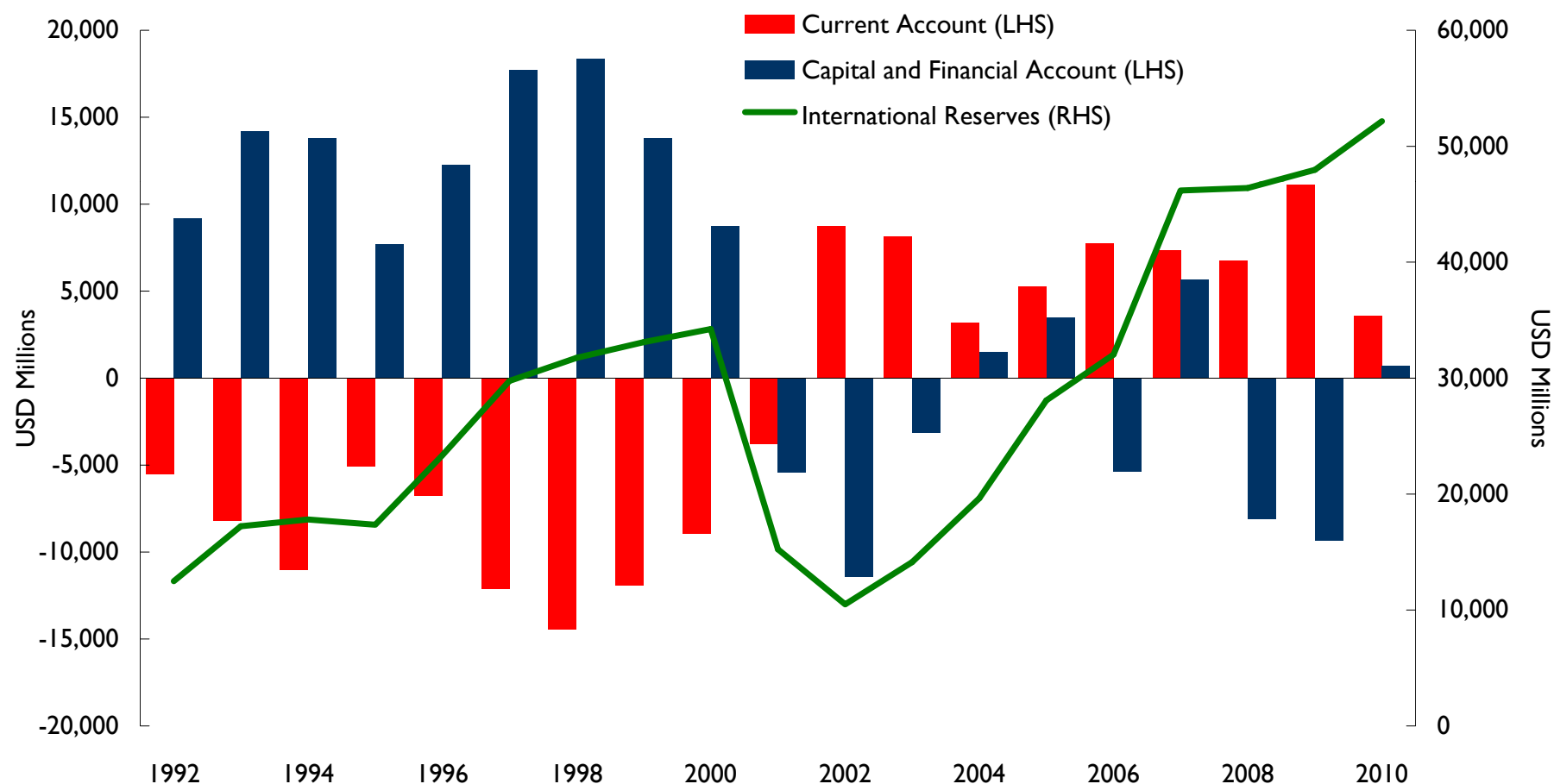
FX Market





External equilibrium: international reserve accumulation

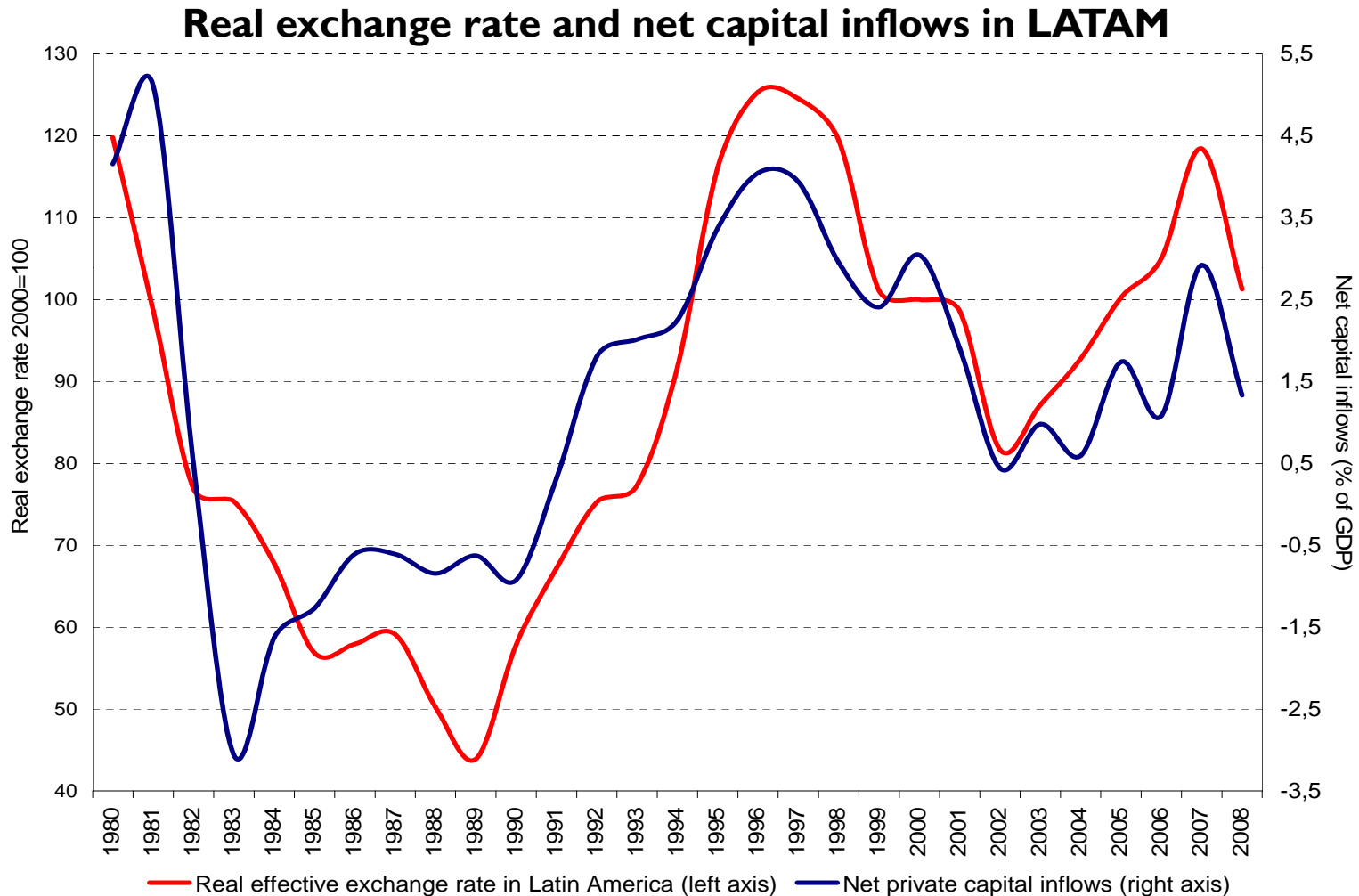
Contrary to the nineties, Argentina has been following a reserve accumulation strategy based on current account surpluses



Source: INDEC



External equilibrium: capital controls are an important element of the macroprudential toolkit



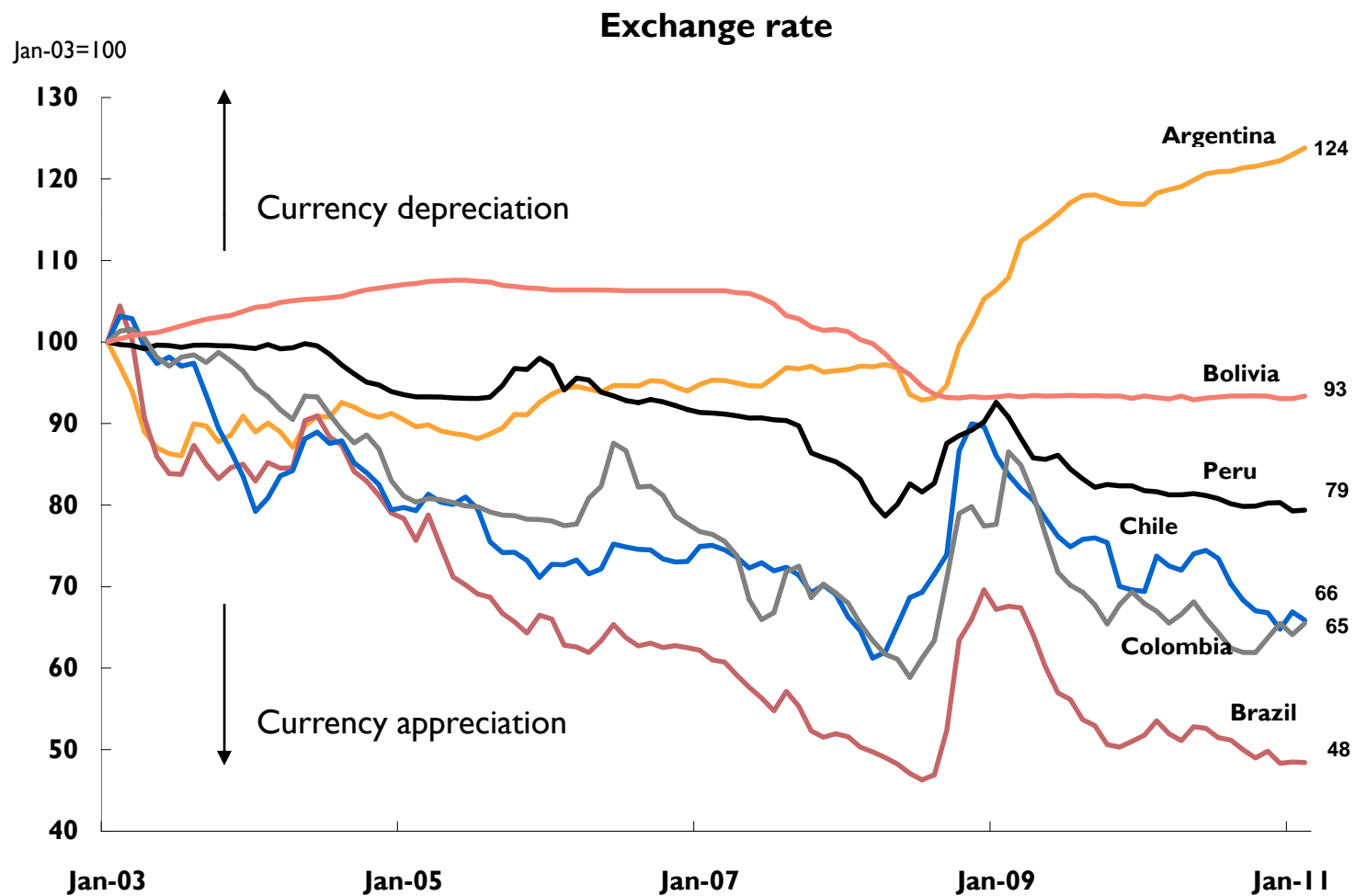
Source: Own calculations based on IMF, Bloomberg and ECLAC.

Note: An increase in the RER series represents a real appreciation for the region.



Competitive exchange rate

Argentina's nominal exchange rate remains above LATAM average

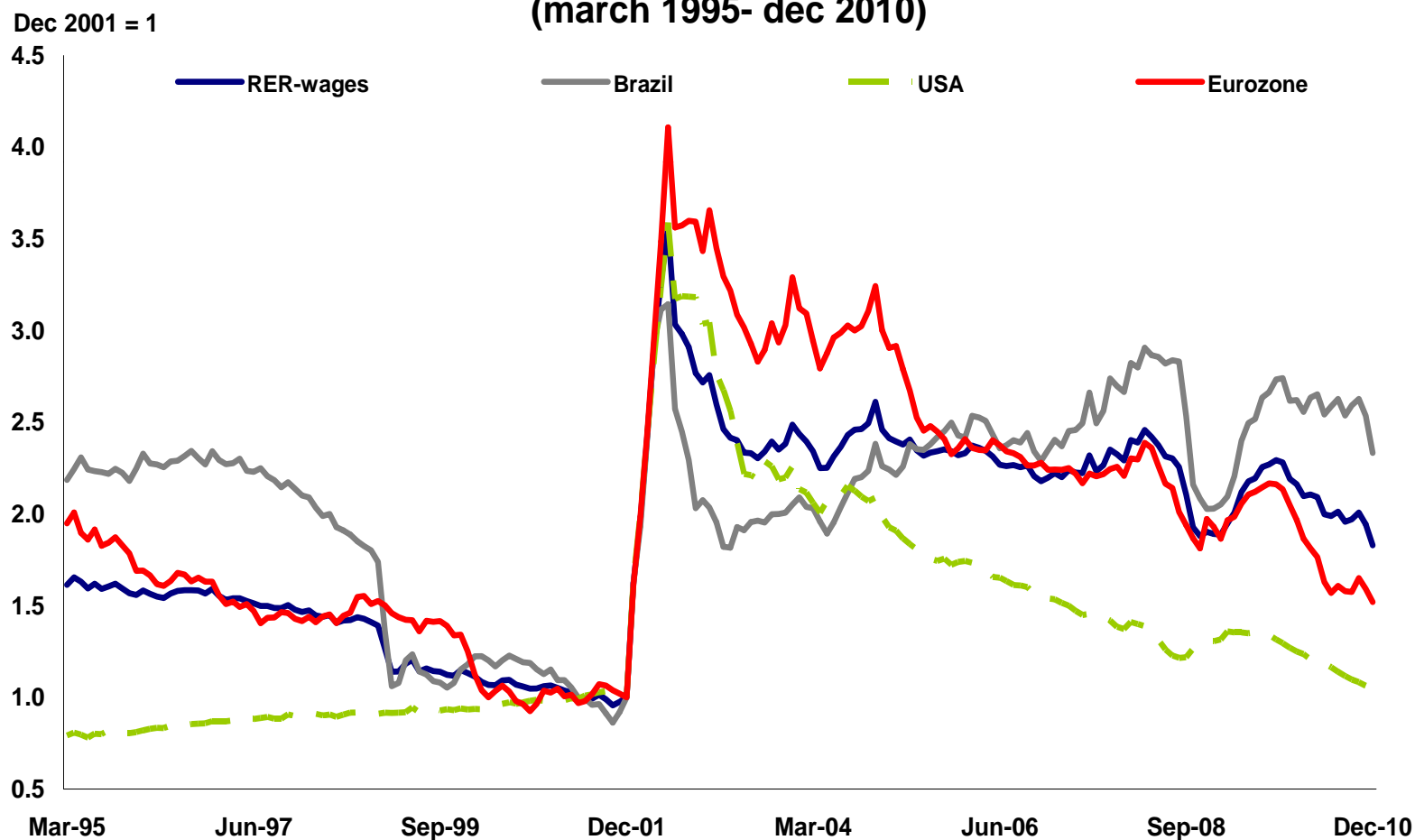


Source: BCRA from central banks



Competitive real exchange rate: Argentina's real exchange rate remains above its long-run average

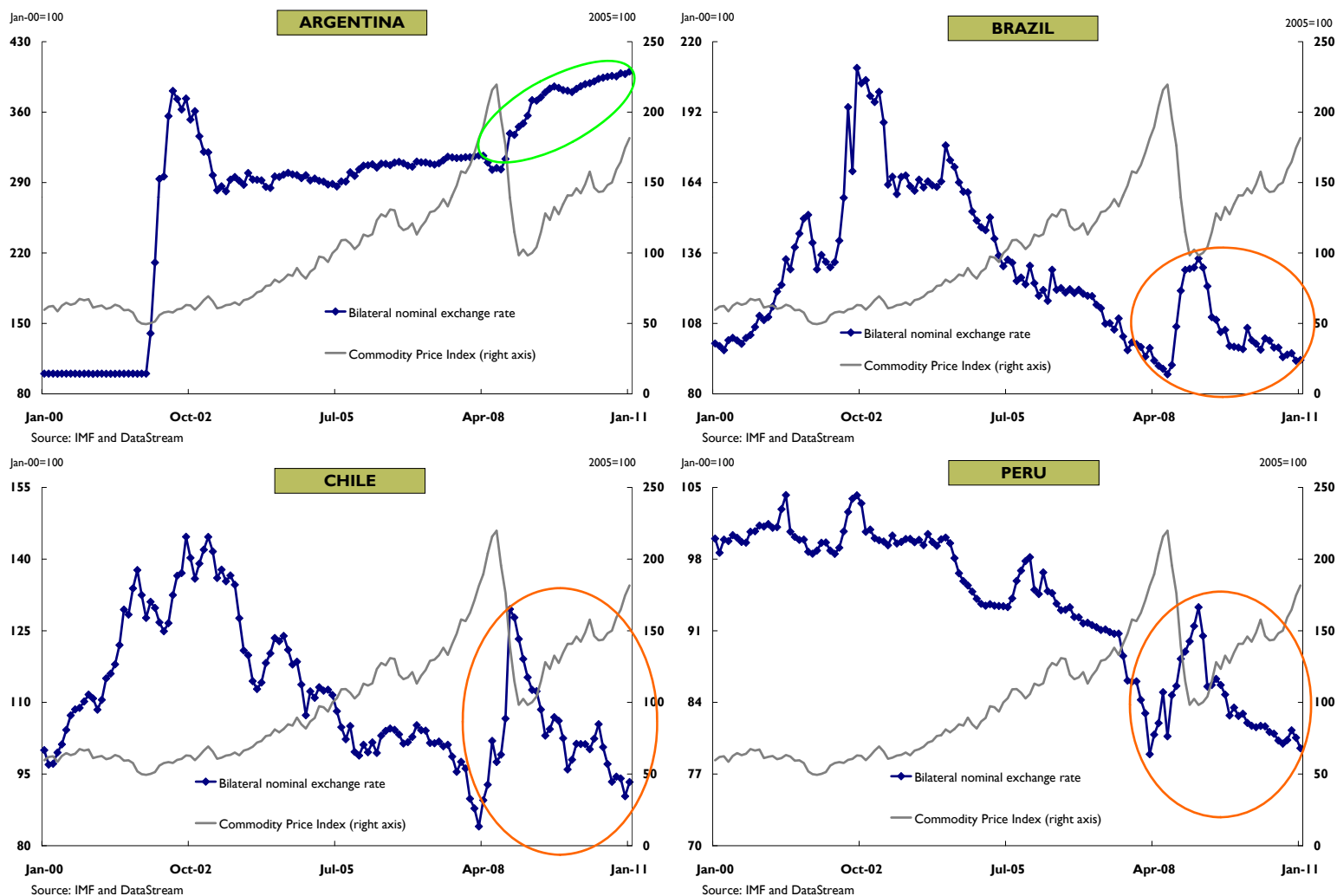
Real Effective Exchange Rate -deflated by wages-
(march 1995- dec 2010)





Competitive real exchange rate

Due to terms of trade shock, many countries in LATAM have been appreciating the nominal exchange rate. Argentina has been following a different path.





The challenge of re-primarization

The current international context poses three closely related challenges for Argentina and Latin America:

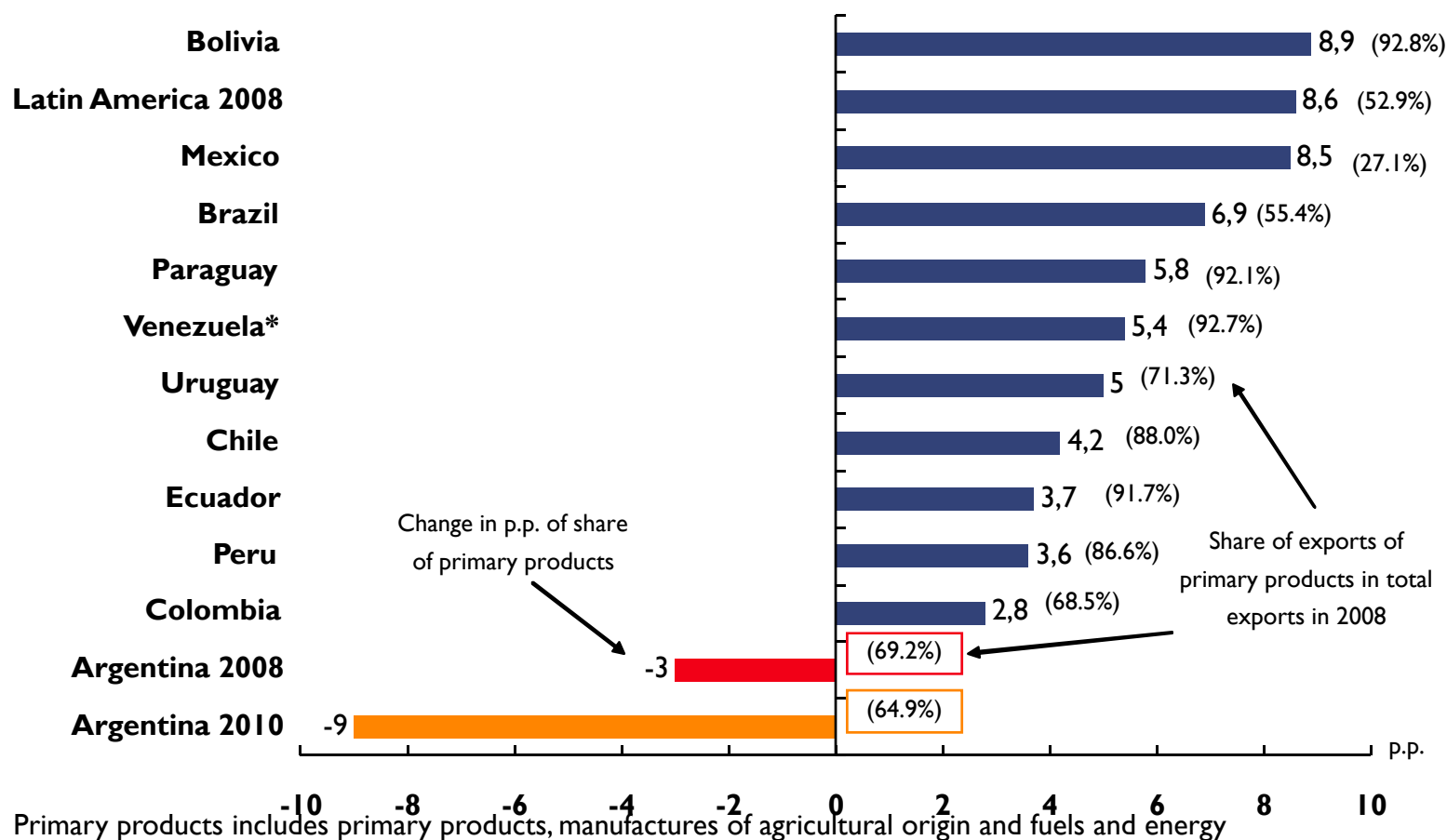
1. high commodity prices,
2. strong capital inflows and
3. real exchange rate appreciation.

All these factors tend to exacerbate the tendency to a re-primarization of the productive structure in the region.



The challenge of re-primarization

Primary Products exports / Total exports. Change in share between 2003 and 2008



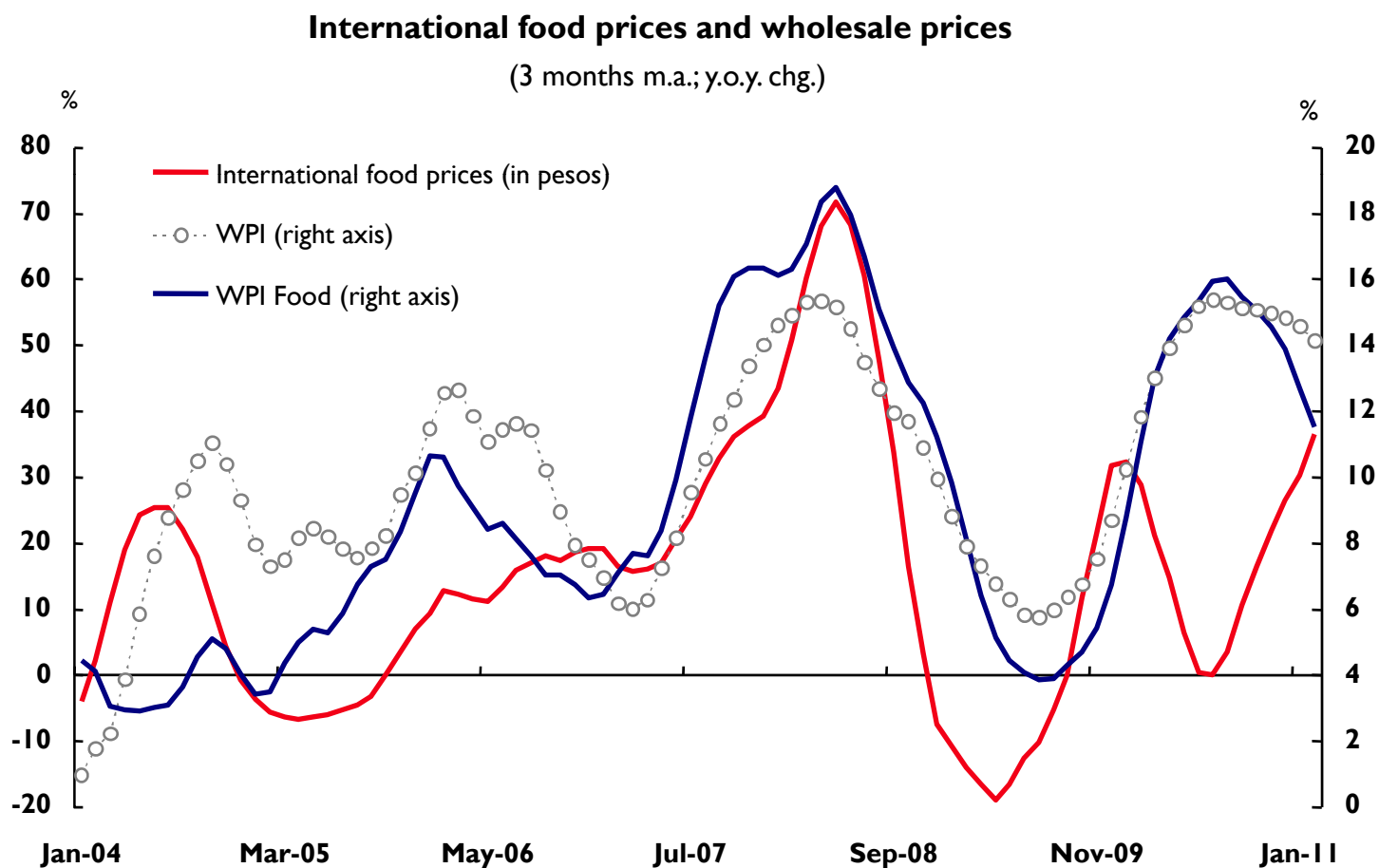
Source: BCRA calculations based on INDEC and ECLAC data

* 2006



Commodity prices and nominal tensions

The positive international shock on terms of trade adds nominal pressure on domestic prices because of its high correlation with the domestic prices



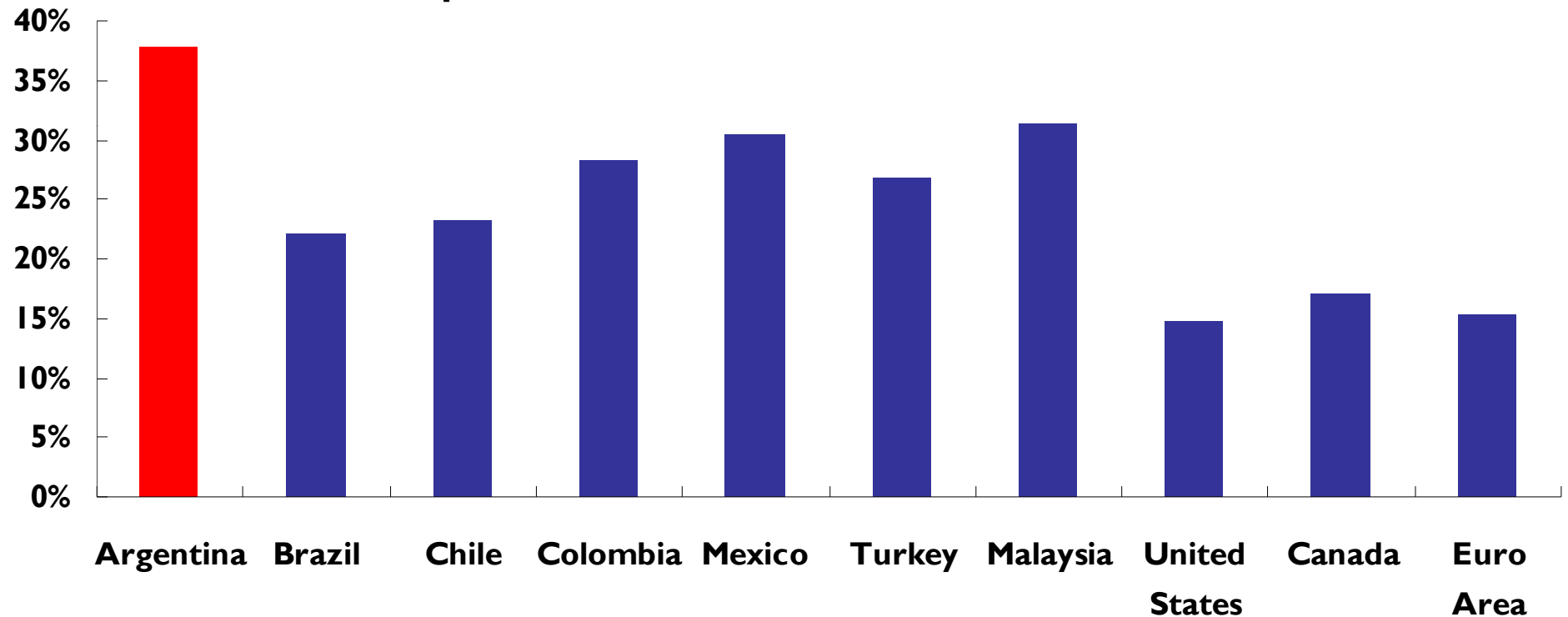
Source: INDEC and World Bank



Commodity prices and nominal tensions

In Argentina food prices share in consumer price index is higher than other emerging economies.

Food prices in CPI basket of selected countries

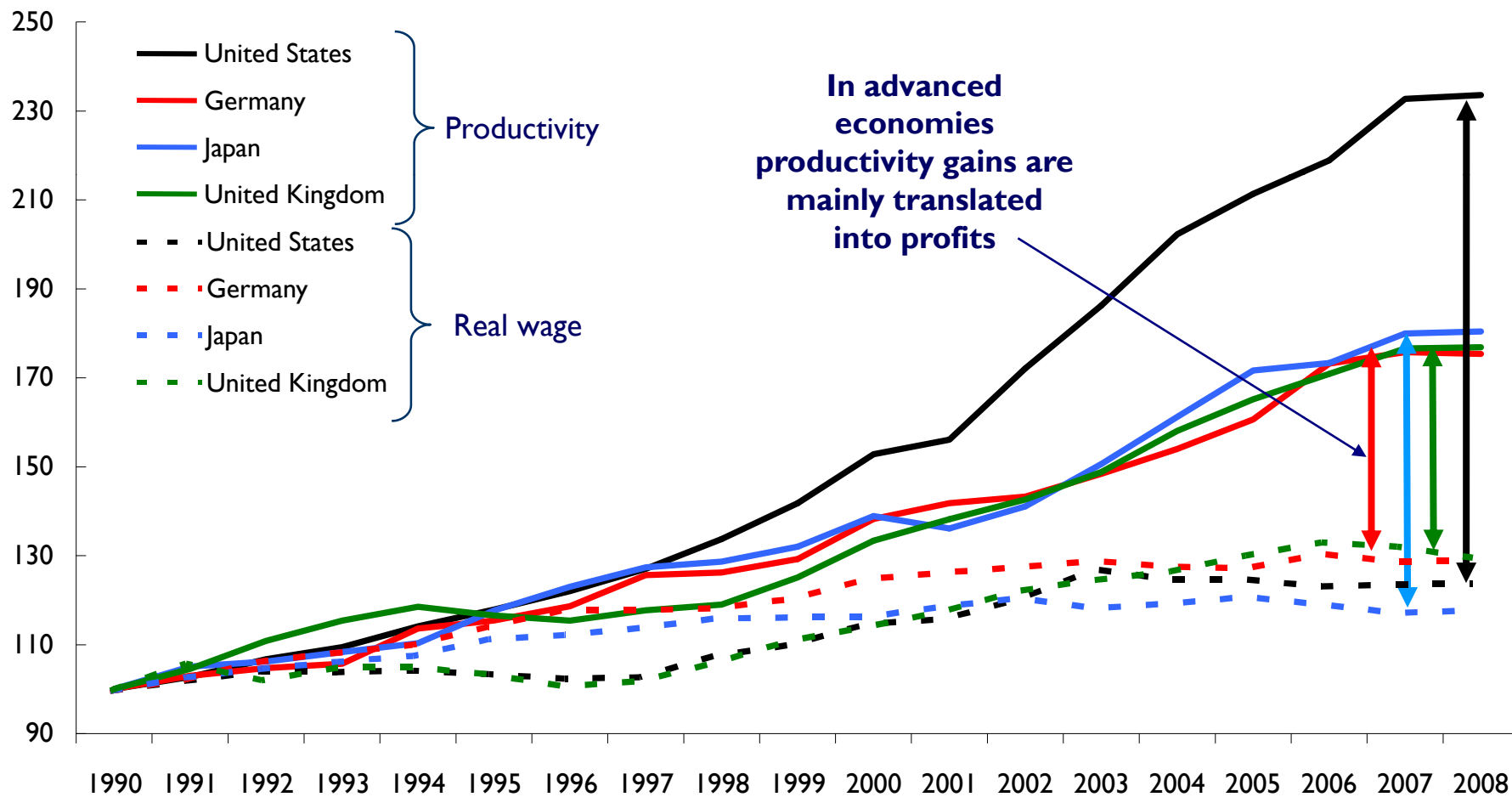


Source: BIS



Struggle over income and nominal tensions

Productivity and hourly real wage
(1990-2008)

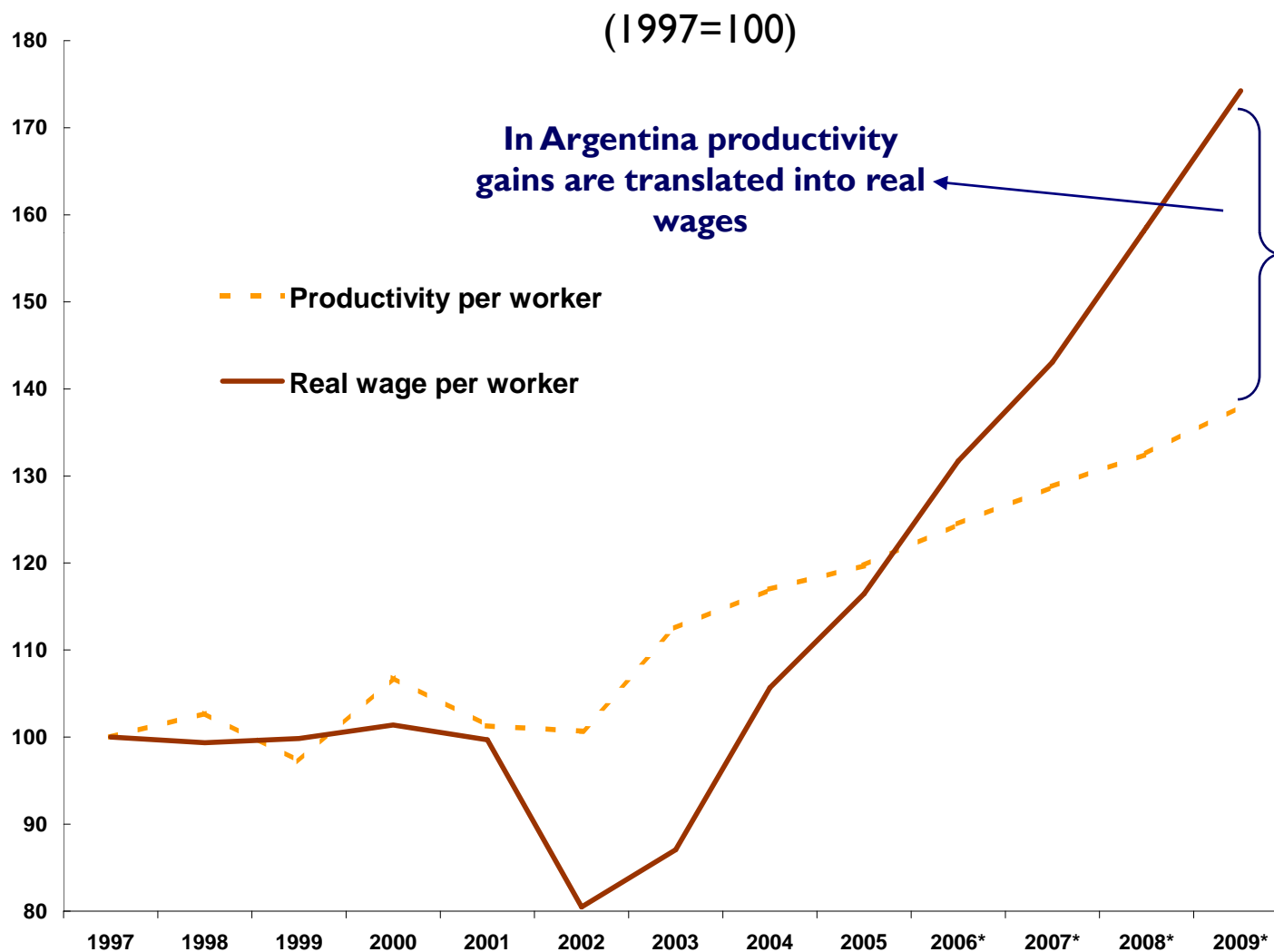


Source: NBLs



Struggle over income and nominal tensions

Productivity and real wages per worker, Argentina: 1997-2009

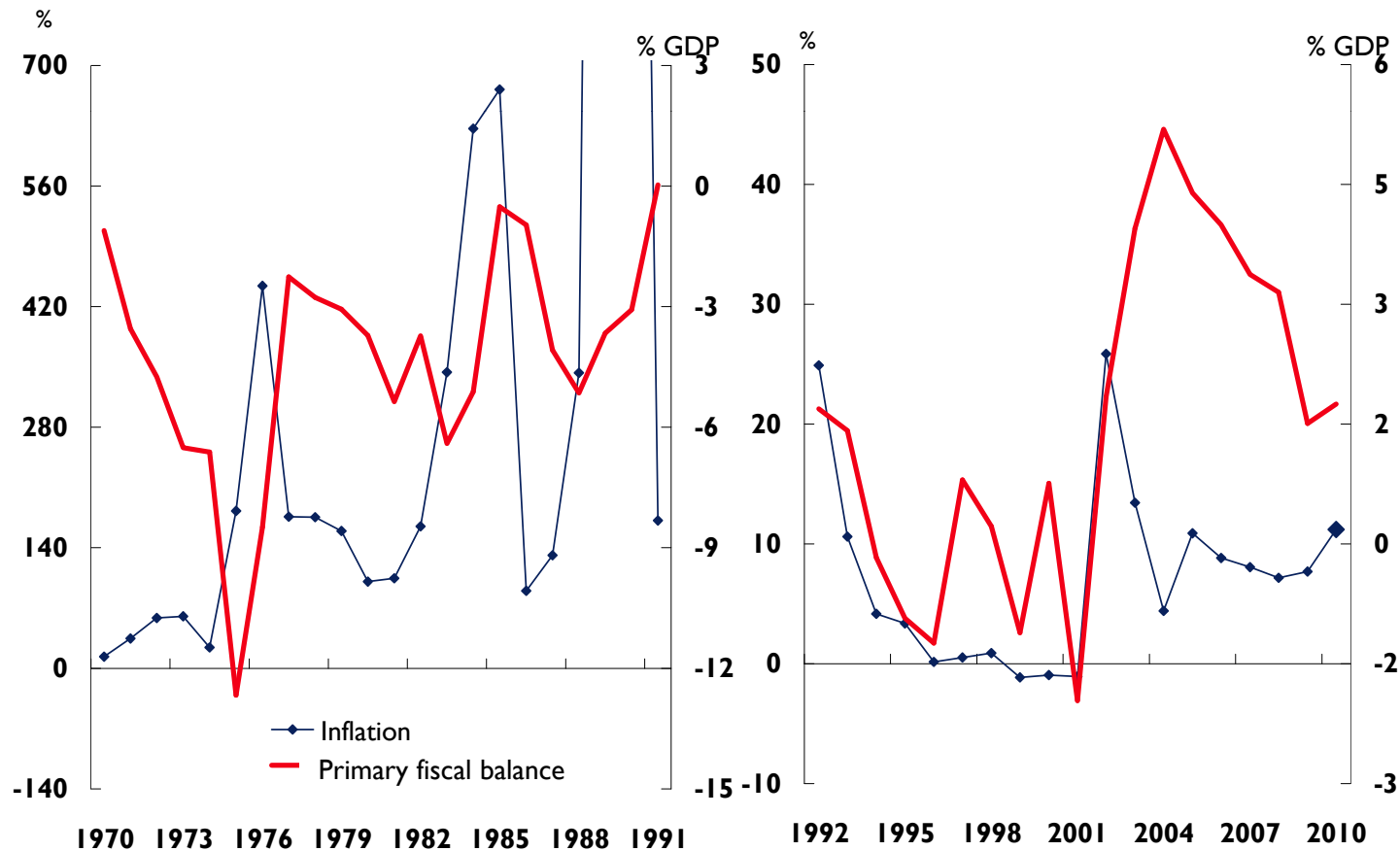




There are no conditions for explosive price dynamics

Positive fiscal balance also contributes to price stability

Inflation and fiscal balance



Source: BCRA from INDEC and OJF data

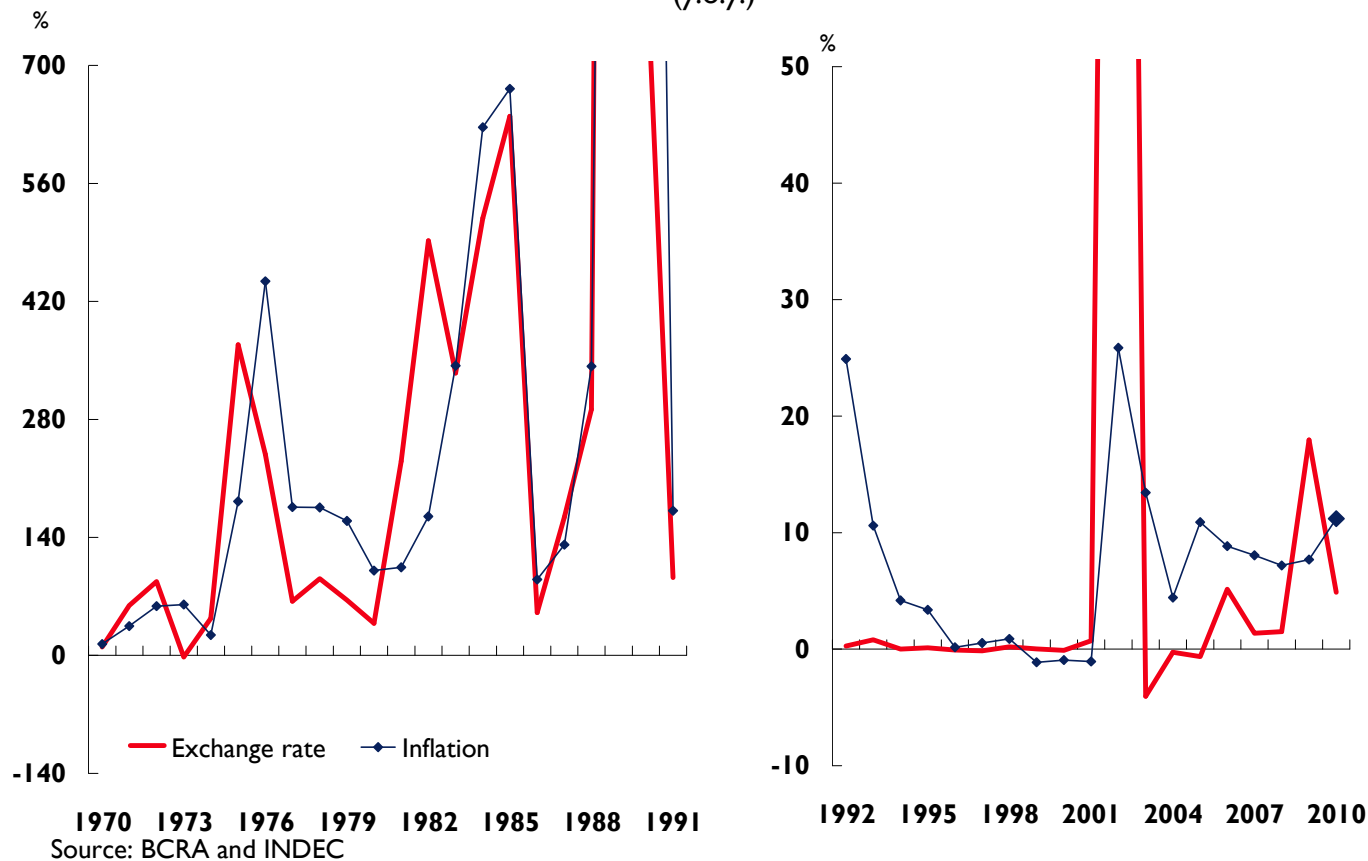


There are no conditions for explosive price dynamics

Positive external balance and exchange rate administration contribute to price stability

Inflation and exchange rate

(y.o.y.)





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**Argentina in the international arena:
G20 and the challenges for economic policy**

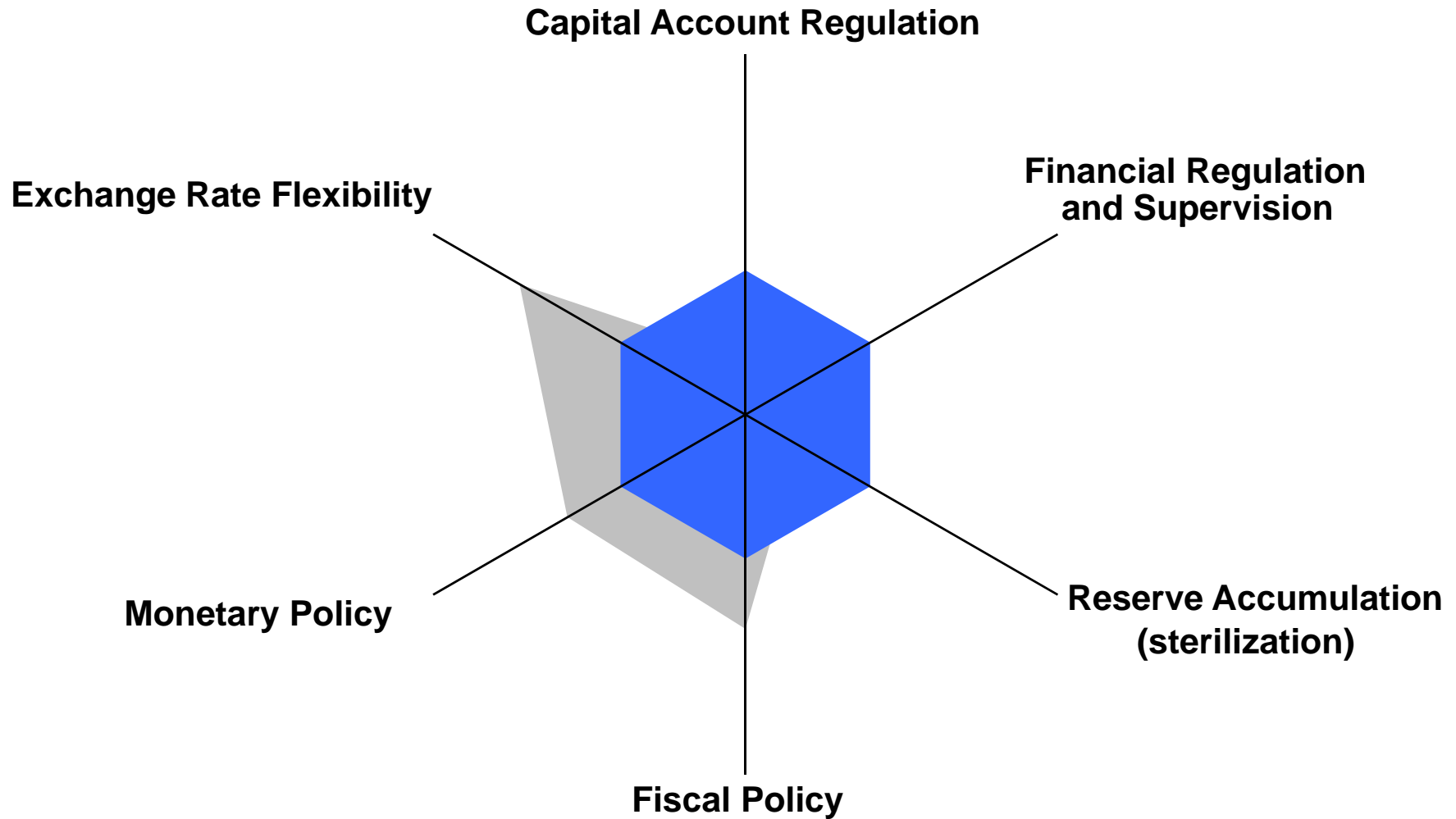


Capital flows, real exchange appreciation and macroeconomics

- Developing countries are facing strong pressures in international fora to accommodate the policy mix in a way that limits capital flows regulation, exchange rate management and reserve accumulation.
- Accepting passively increased capital flows and exchange rate appreciations generates macroeconomic problems in the short as well as in the long term:
 - i. induce RER appreciation
 - ii. create domestic assets prices bubbles (financial and real)
 - iii. generate procyclicality in the financial system by encouraging short-term loans mainly for consumption and speculative investments
 - iv. limits monetary policy autonomy
 - v. create a bias towards primarization
- Unregulated capital flows extend crisis more easily to countries, even when fundamentals are right.



Which is the correct policy mix EMEs?





EMEs are doing well, but development is still in progress

- In the case of EMEs, capital inflows often cause more damage than the domestic financial system negative externalities, even taking into account their macroeconomic externalities -high volatility-.
- The most damaging bubble in EMEs continues to be exchange rate bubbles pushed by short term capital inflows
- Although EMEs performance has been on average satisfactory, this does not mean that their economic development level is close to a desirable one.
- **Correction of global imbalances should not condition the most important objective of reducing the development gap among emerging and advanced economies.**



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THANK YOU



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Annex



Macroeconomics and financial stability

- The Central Bank of Argentina has recently undergone a self-assessment of the domestic regulatory framework based on Basel's Committee principles. 26 out of 30 items evaluated were fulfilled.
- In a 1998 study, the World Bank ranked the Argentine financial system among the soundest ones, only behind Singapore and in the same position as Hong Kong.
- In 2001, Argentina entrusted IMF and World Bank with a FSAP. If one compares the results, the FSAP (conducted only a few months before one of the worst financial and banking crises in Argentine history) indicated that 28 out of 30 items assessed were fulfilled, while only 2 needed to be improved.
- One may then cast some doubt on the relationship between the compliance of these principles and financial stability.
- However, there is a link between macroeconomic regime consistency and financial system performance and stability. Only an economy that grows and develops its productive capacity, is capable of constructing a sound financial system.