

# DE TODOS (OF ALL OF US?)...

“De todos” substituted for the word “public” purged from government discourse, even from the their classical music radio station

# Latin American Economic Policy and the new nationalism?

## Argentina idiosyncrasies; structures

- Globalisation; interaction between world and own circumstances
- The Argentine business cycle largely independent of the G7 real business cycle
  - a) mainly a grain exporter, consequently the U.S. a minor market
    - i) *quantities* weather dependent
    - ii) *prices* on availability, USD exchange rate and financial speculation
  - b) manufacturing exports; Brazil as main market
- But the *Argentine business cycle is strongly dependent on the G7 financial cycle* plus a chronic capital outflow of Argentine residents

# Latin American Economic Policy and the new nationalism?

Argentina idiosyncrasies; current circumstances: an out of step Washington Consensus comeback?

- The government taking office in December 2015 campaigned for:
  - a) an end to government meddling with economic affairs;
  - b) opening up the country to the world economy, both
    - i) through *promotion of Free Trade policies* including signing Free Trade agreements (even one with the U.S.!),
    - ii) by *opening capital and financial account operations*, both inflows and outflows;
  - c) to bring down inflation through fiscal “discipline” and a restrictive monetary policy.

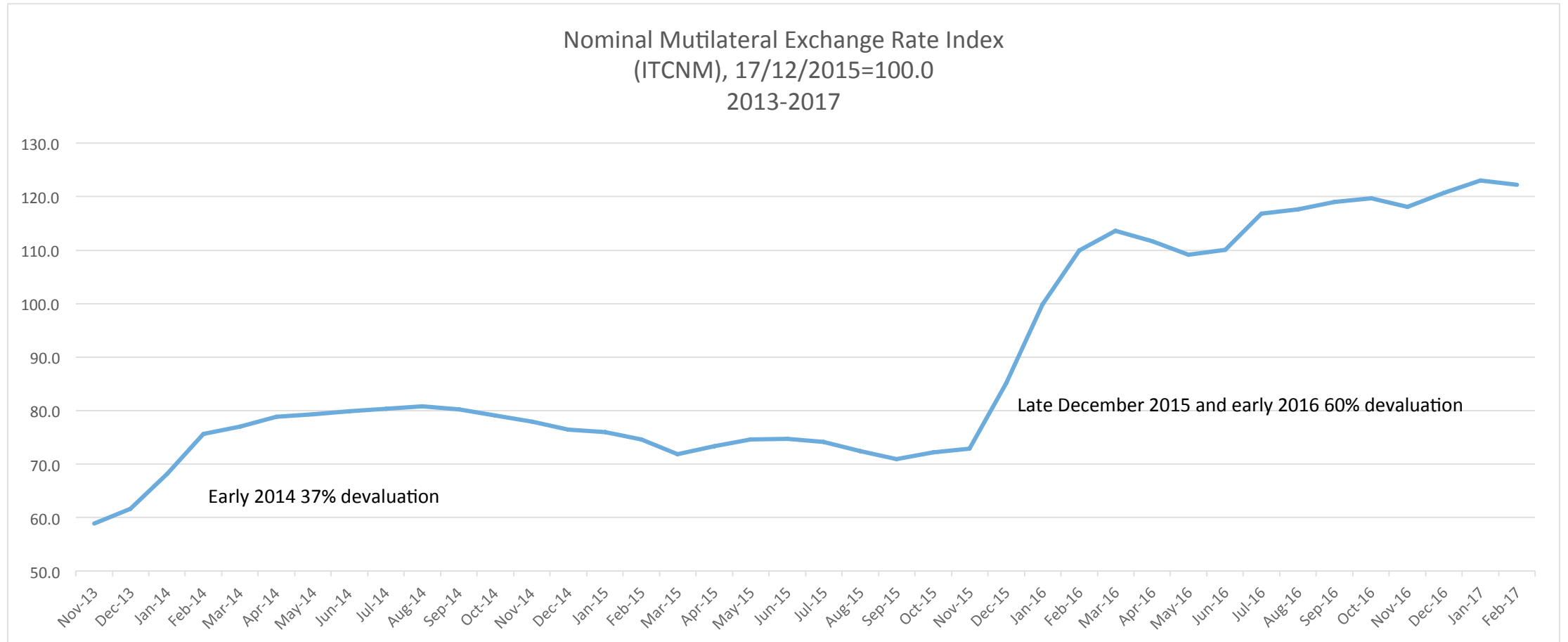
# Consequently the immediate measures of the new government where

- 1. Elimination of the “ cepo cambiario” (foreign exchange block) – restrictions on access to foreign exchange;
- 2. Withdrawal of central bank intervention in the foreign exchange market;
- 3. Settling litigation with foreign creditors;
- 4. Elimination of taxes on export of primary products, both agricultural and mineral;
- 5. Allowing increases in rates charged by mostly privatized public utilities.

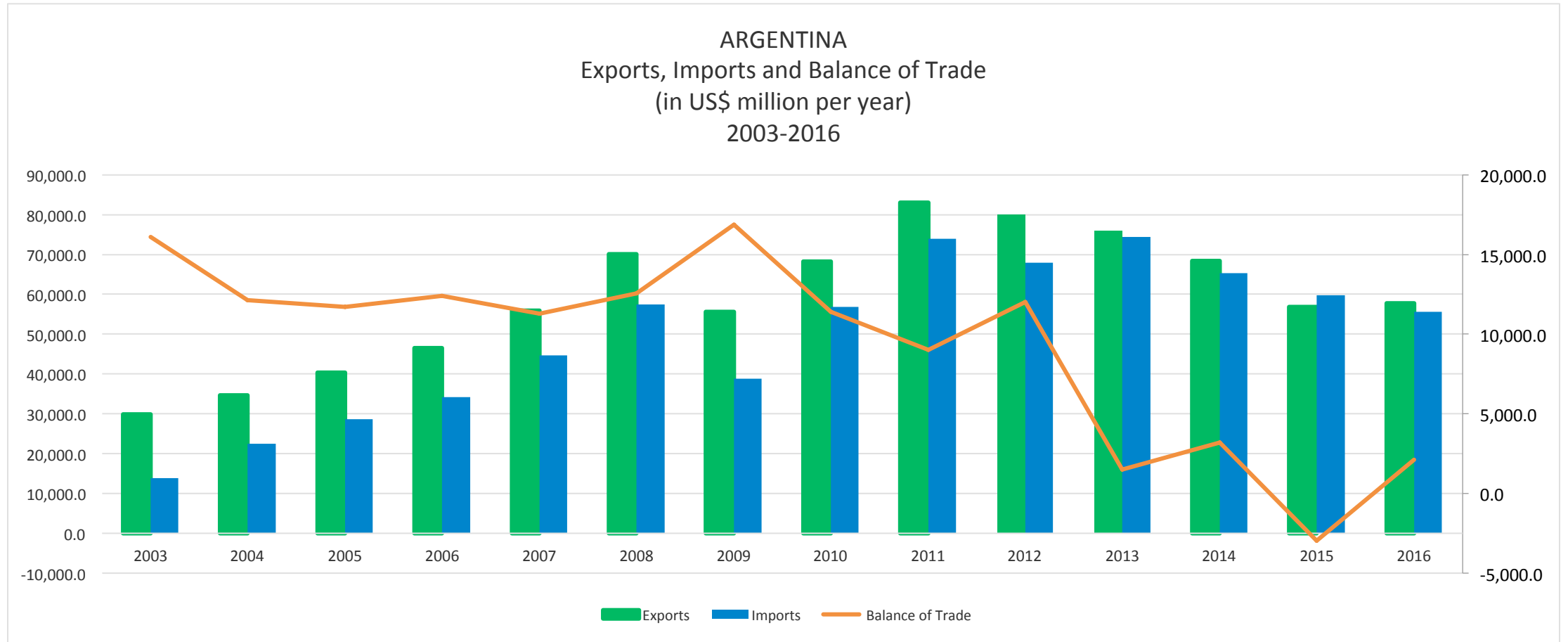
# As a preview of the results

- Recession;
- Current account deficit;
- Increase in Private Non-Financial Sector Capital Outflows;
- Renewed external indebtedness;
- High inflation;
- Unemployment and fall in real wages;
- Increases in poverty numbers and in inequality;
- Increases in fiscal deficits;
- De-Regulation and Inflation or Exchange Rate Targeting?

# Elimination of “cepo” and withdrawal of intervention in the market led to an accumulated 60 percent nominal devaluation over a 3<sup>1/2</sup> month period

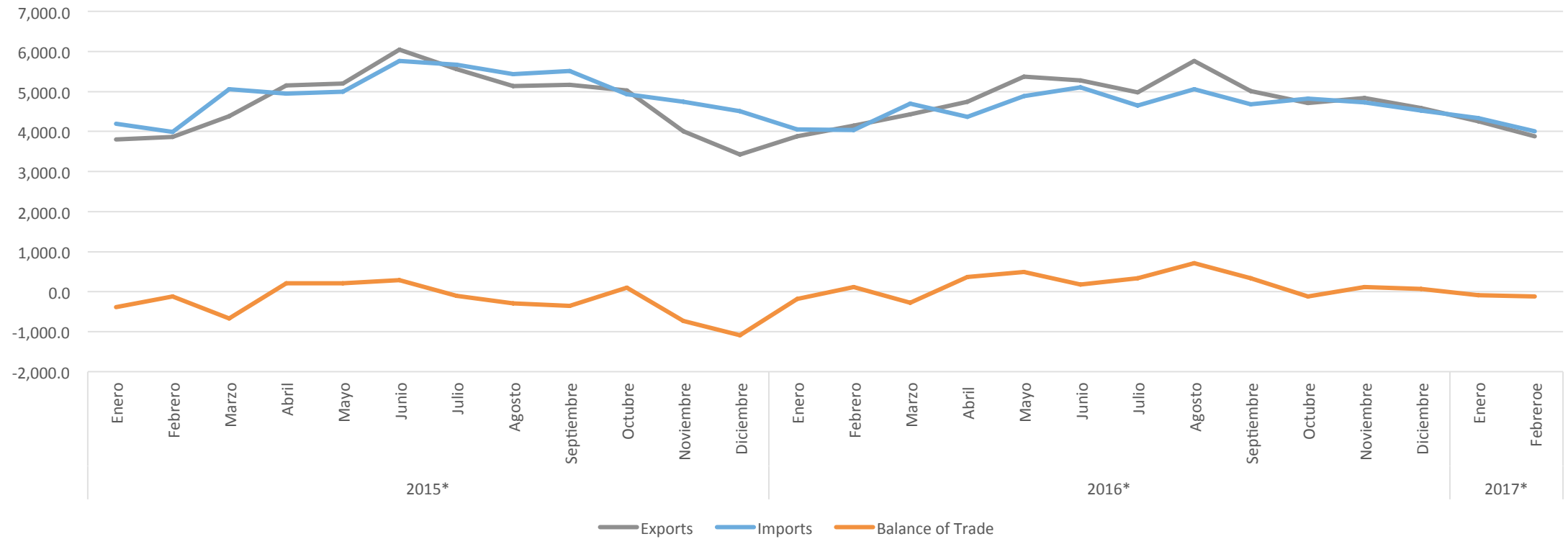


But the trade balance that had turned negative in 2015 – it is habitually put forward because of the fall in terms of trade – barely managed to return to a positive sign in 2016



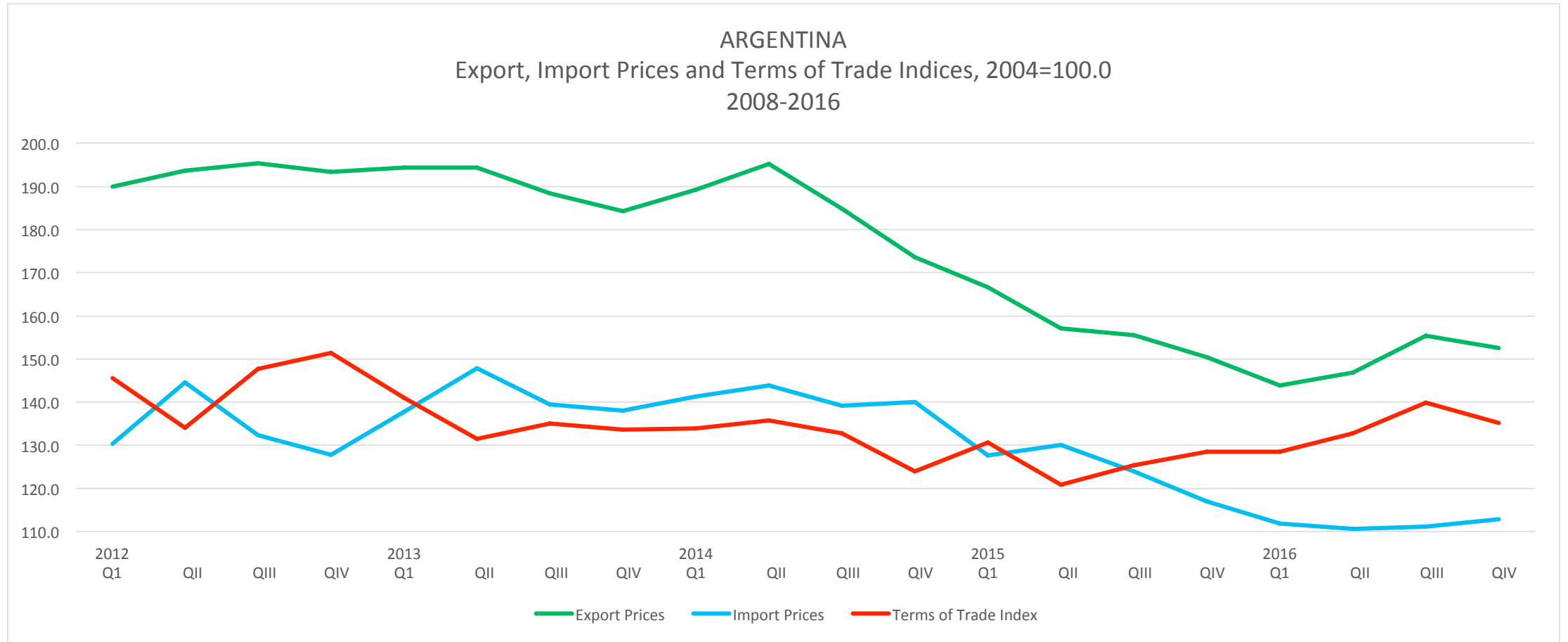
And monthly returns show again a negative trade balance at the beginning of 2017 although seasonal reasons could somewhat explain it

ARGENTINA  
Exports, Imports and Balance of Trade, monthly  
(in US\$ million)  
2015-2017

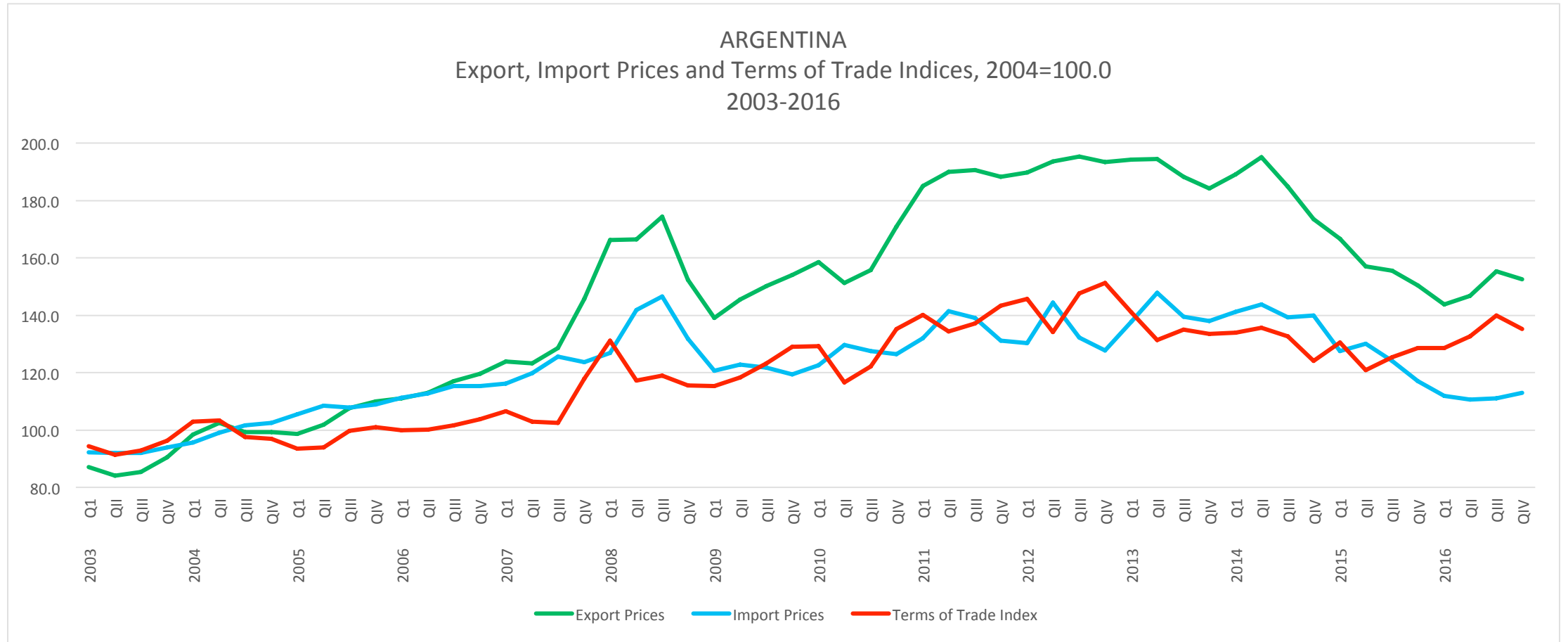




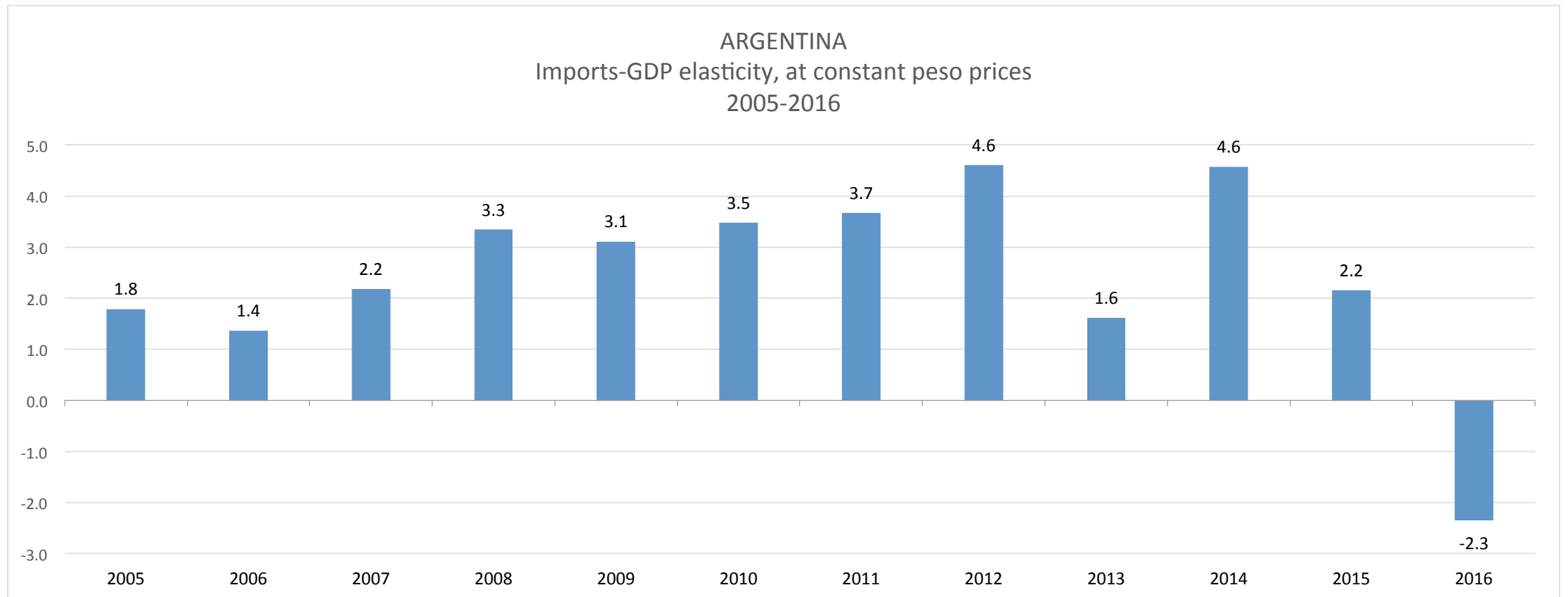
Terms of Trade, indeed, that in spite of the crisis had kept increasing, started falling at the end of 2012



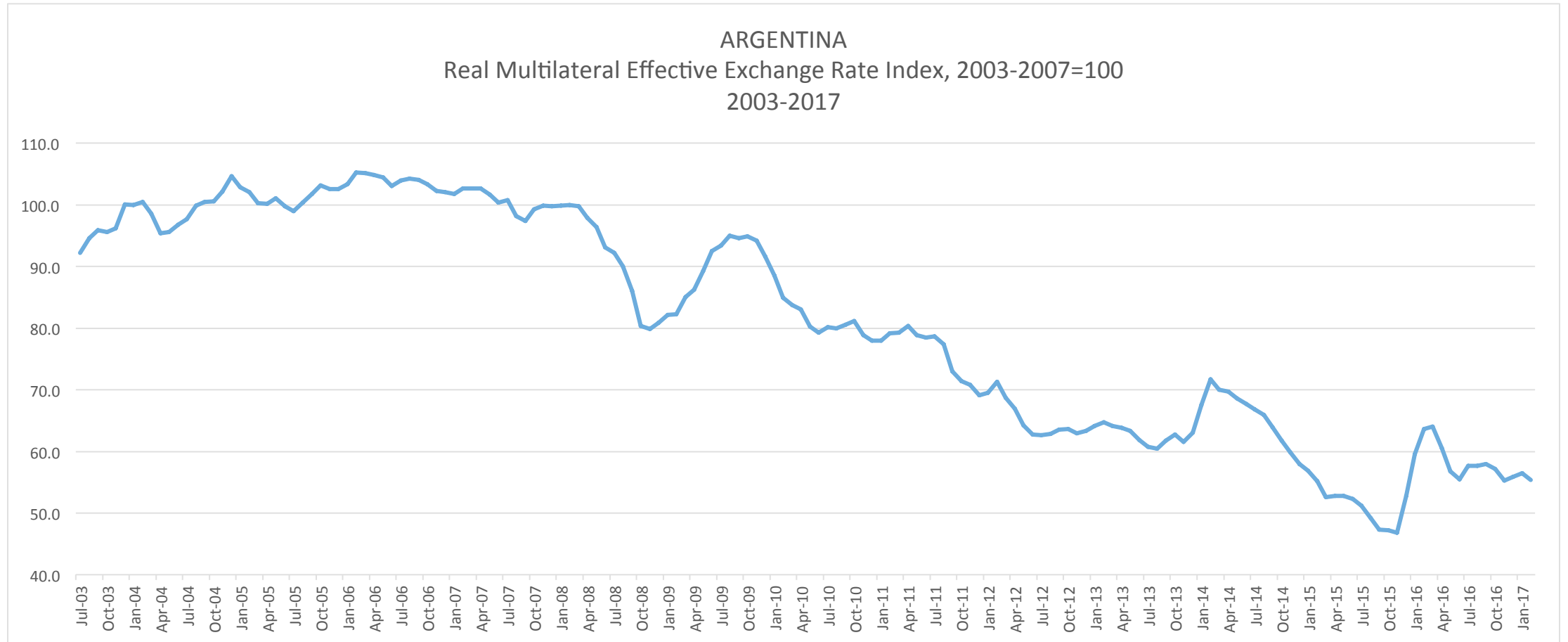
Still they remained well above – 30% - their level in the 2003-2007 period that showed positive balances of trade (on average almost US\$13 billion compared with only less than US\$1 billion in 2013-2016)



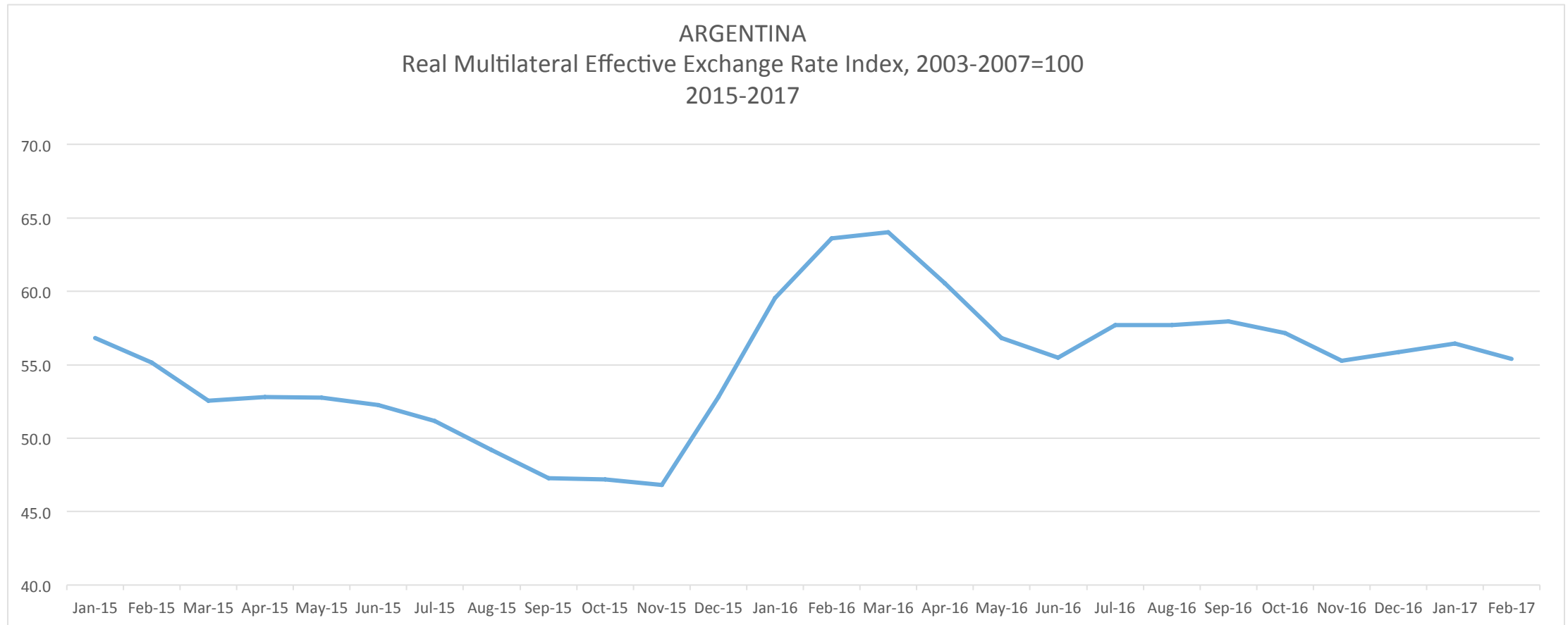
Another reason for the deterioration of the external position is the extremely high income import elasticity, part of a process of de-industrialization so that at full employment Argentina tends to develop a trade deficit



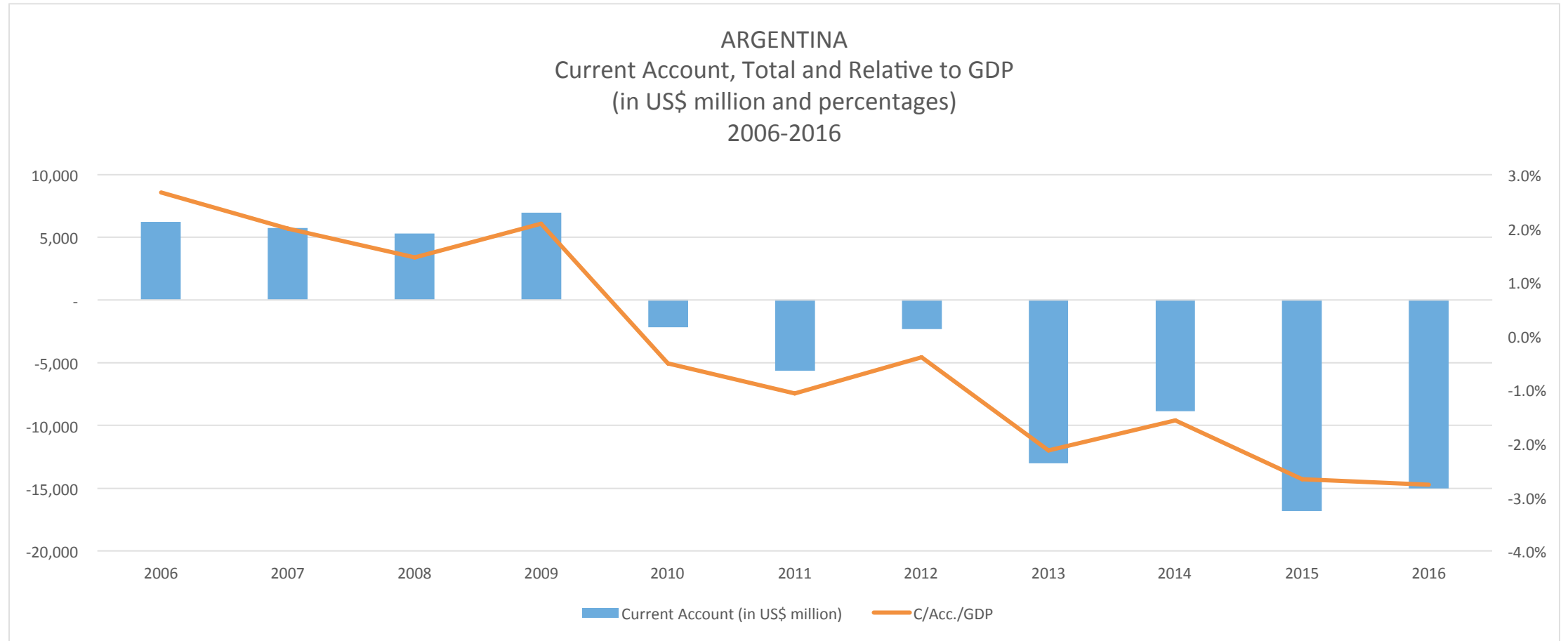
In search of a better explanation one may point out to the evolution of the real effective exchange rate; in the 2013-2016 period it had lost almost 2/3 of its level in 2003-2007



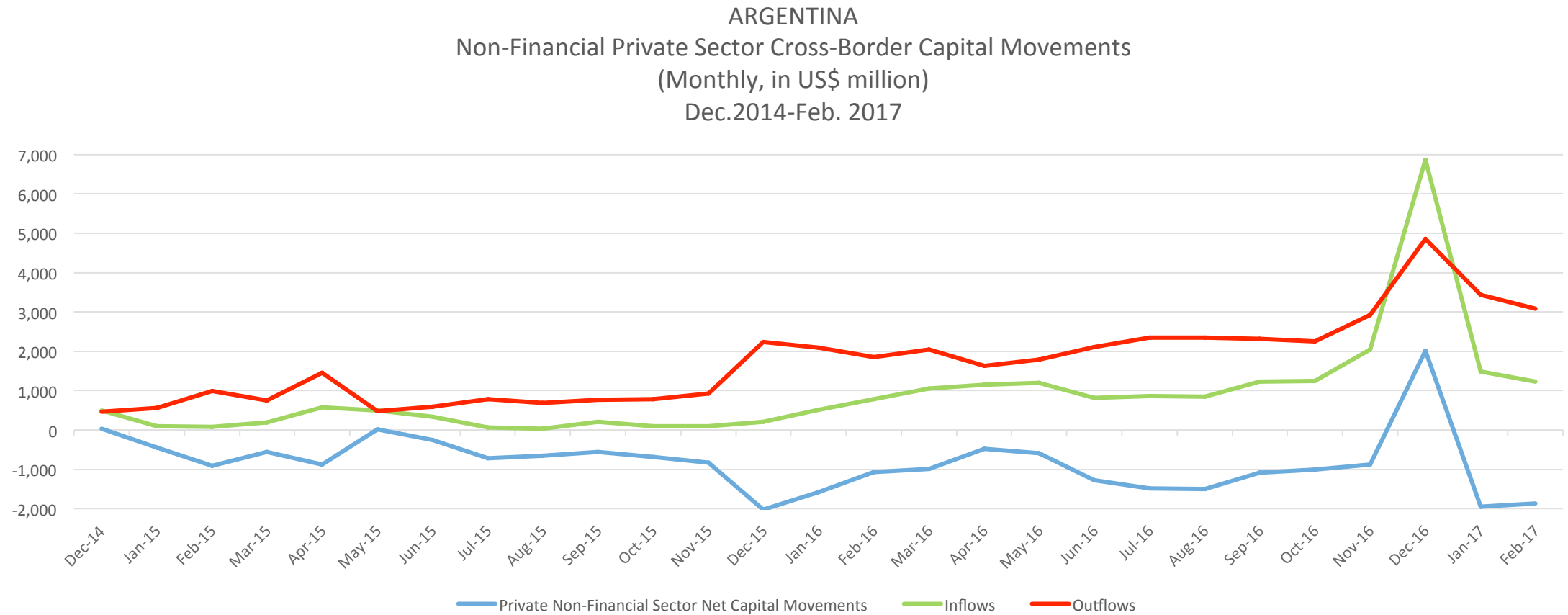
And for all its nominal initial increase at the beginning of 2016 as a result of a high inflation rate REER is presently 45% below the average for the 2003-2007 period that showed a comfortable surplus in the trade balance



# Current account in absolute terms and relative to GDP has kept being negative beginning in 2009

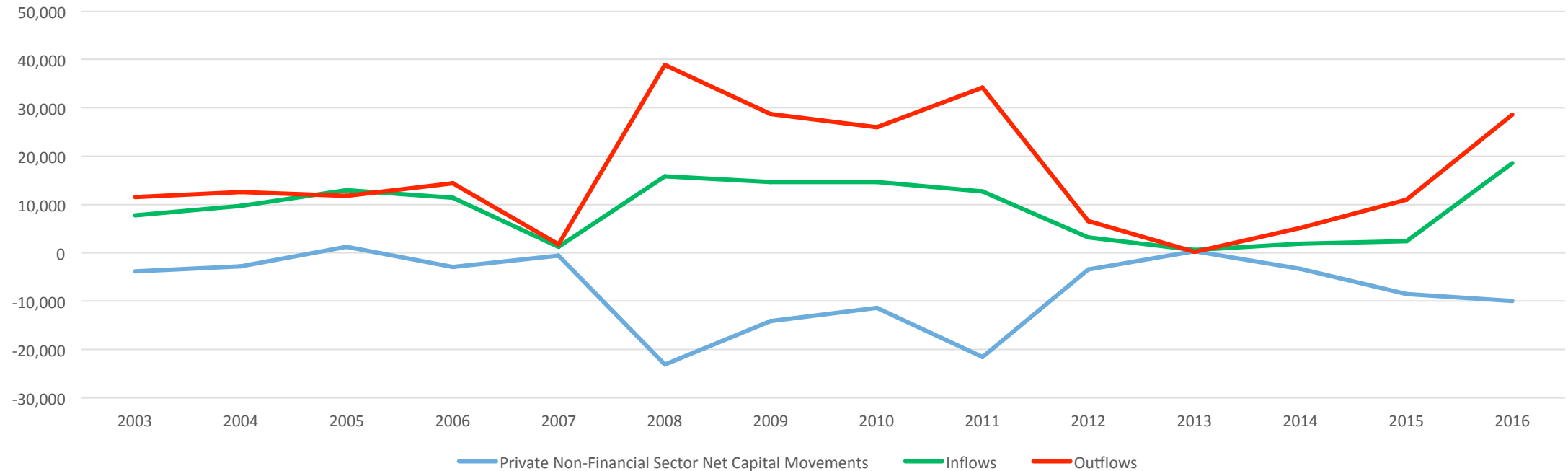


Elimination of the “cepo cambiario” – foreign exchange “block” – resulted as always in an increase in capital outflows that has worsened in the last few months but for the result of a tax amnesty



# Capital outflows is nothing new in the era of eagerly adopted financial globalization but for a few periods of capital controls

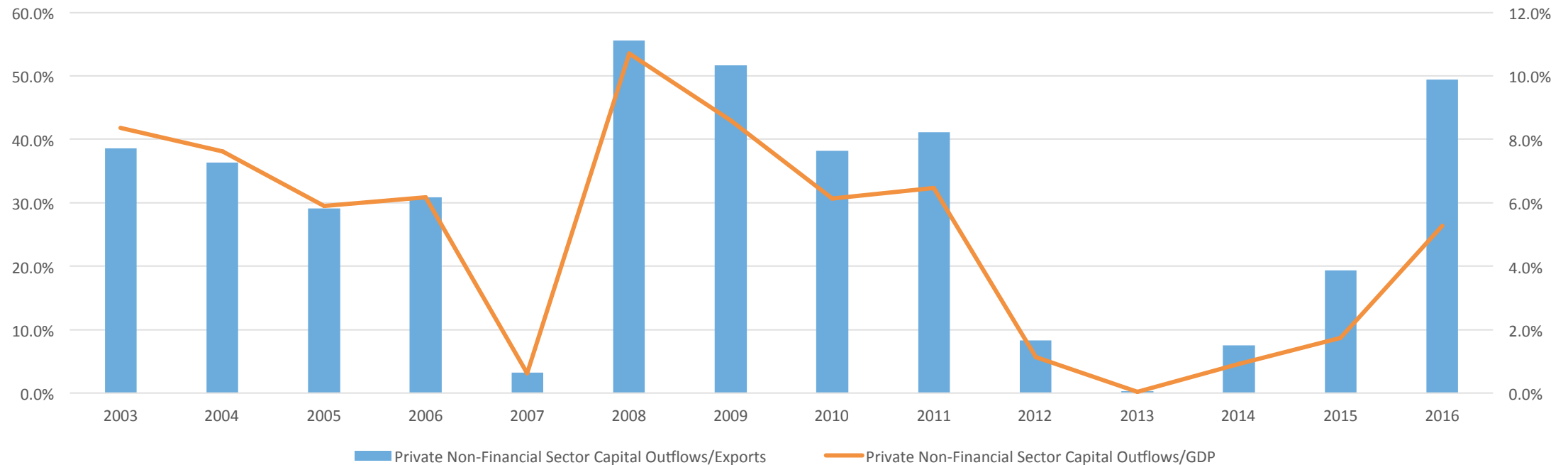
ARGENTINA  
Non-Financial Private Sector Cross-Border Capital Movements  
(Annual, in US\$ million)  
2003-2016



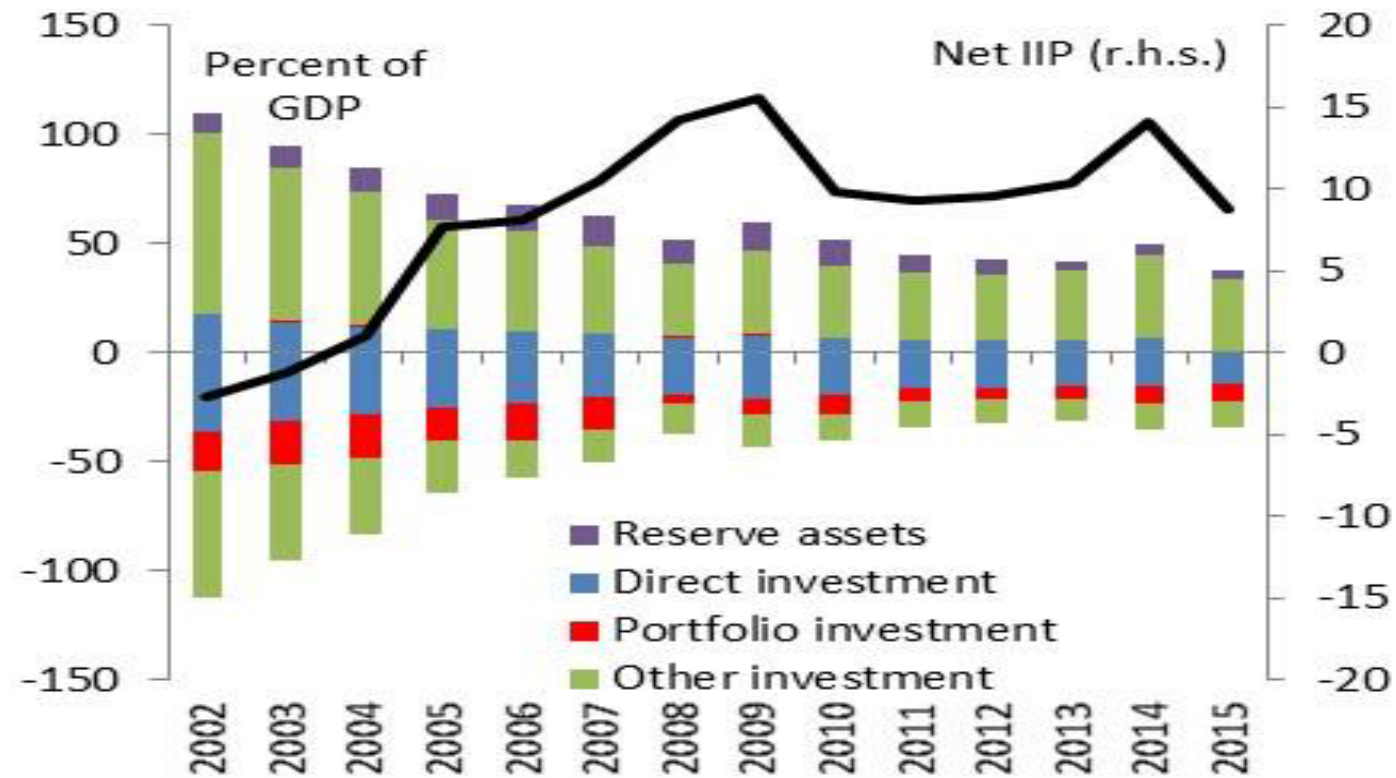


Drain of capital outflows has been significant both in terms of exports and of GDP (in 2016, respectively, 50 and more than 5 percent)

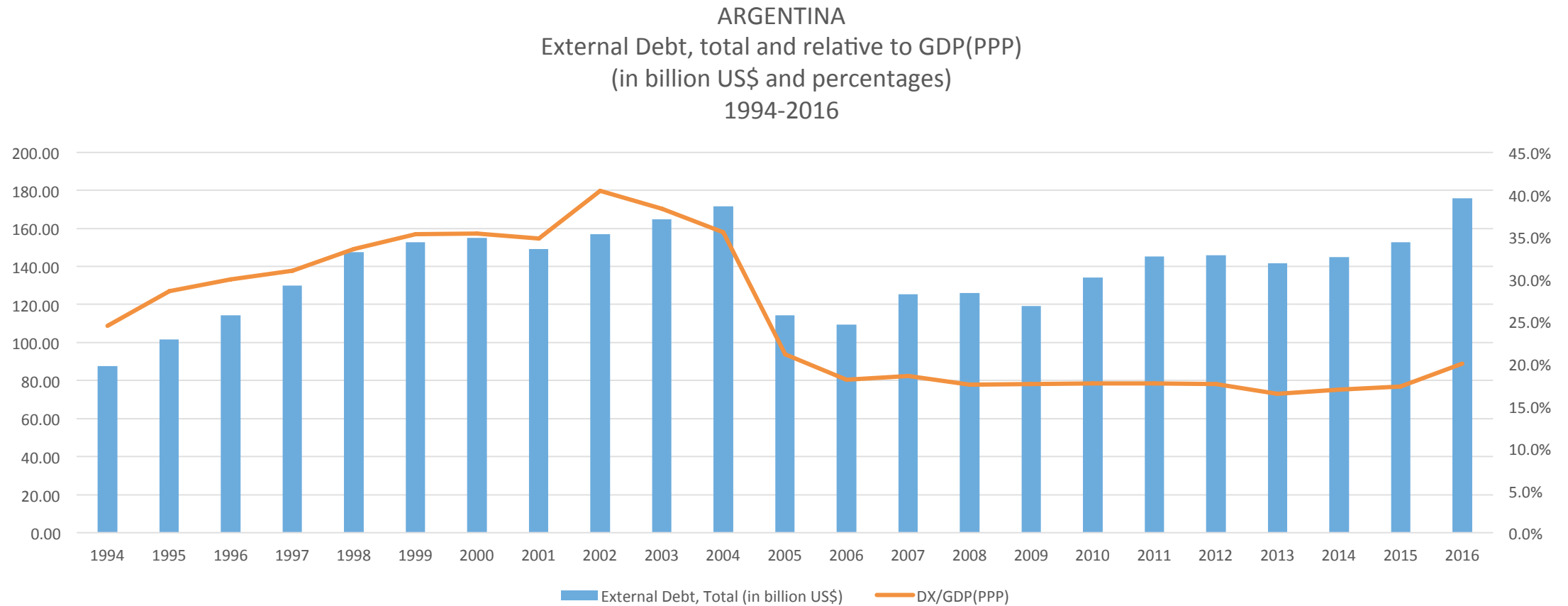
ARGENTINA  
Private Non-Financial Sector Capital Outflows, relative to Exports and to GDP  
(in %)  
2003-2016



Argentina was the only EME displaying a positive Net International Investment Position reaching 9 percent of GDP in 2014

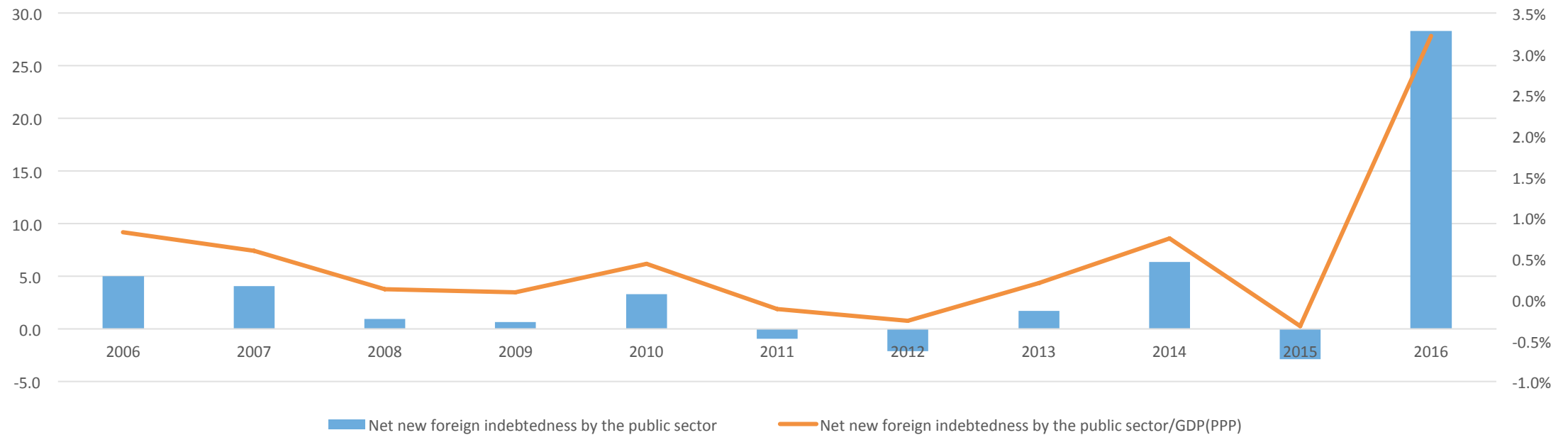


In fact external debt after the 2005 & 2010 restructurings had become rather low relative to GDP, a process labeled as that of de-indebtedness



But as mentioned before the new authorities have changed orientation and a new process of indebtedness has been initiated

ARGENTINA  
Public Sector Net New Foreign Indebtedness  
Total and relative to GDP(PPP)  
(in US\$ billion and percentages)  
2006-2016

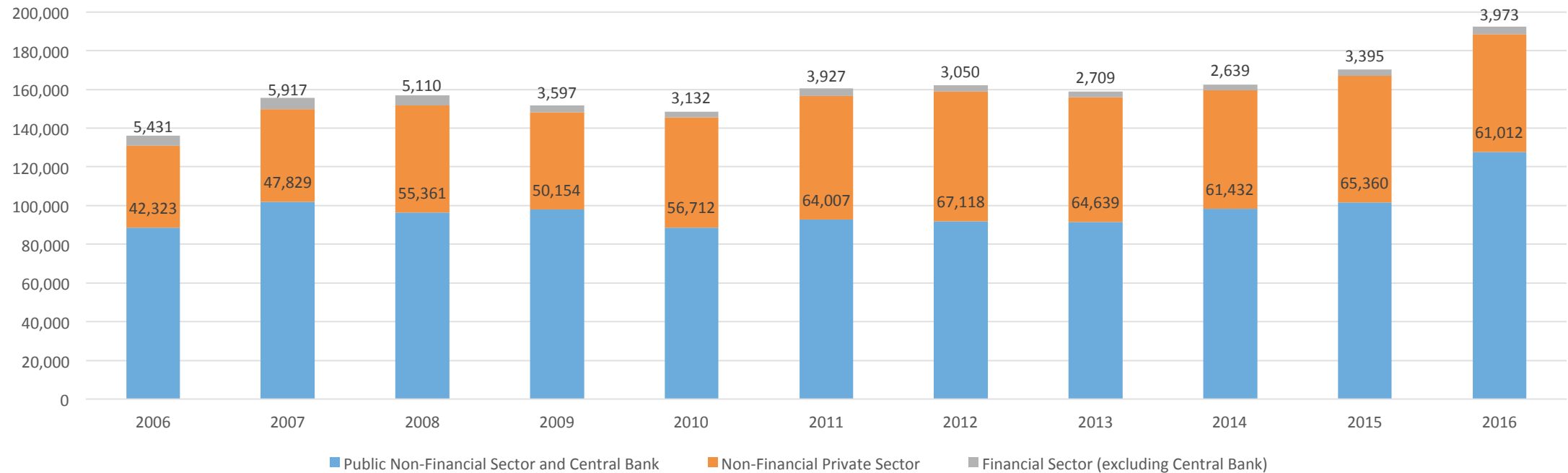


## Settlement with the “vulture funds”; one of the priorities of the new government to re-enter the international financial market

- Successful litigation by the “vulture” funds even blocking payment in the restructured debt.
- In a rush the new Argentine government offered two possibilities to creditors involving a small haircut on the nominal value and including payment of legal costs.
- On the purchase value of its bonds, estimated at US\$177 million, NML one of Mr. Singer funds, ended up receiving US\$2.426 billion a return of 1,270 percent. The approximate total payments amounted to US \$12 billion.
- A law was passed with support from senators of provinces willing to be in a position to issue US\$ denominated debt, which they did.

As a result public external debt, between the end of 2014 and that of 2016 jumped 29.2 billion US\$ or 30%

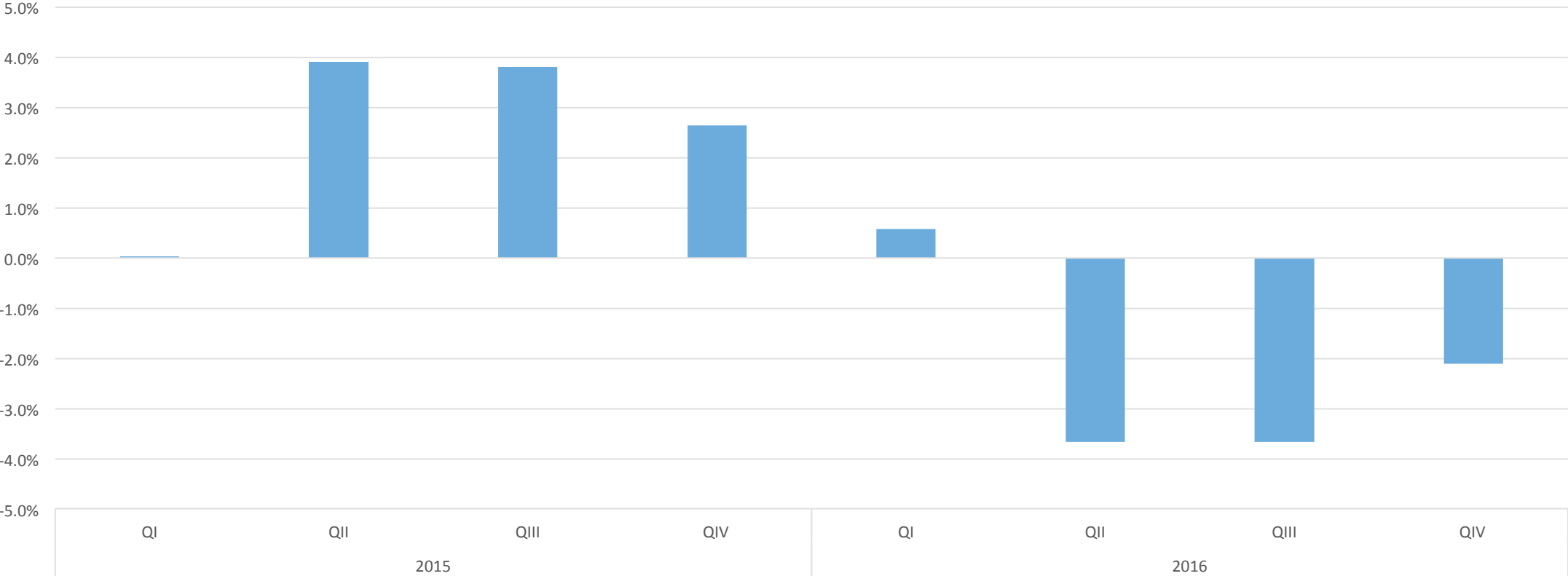
ARGENTINA  
External Debt, By Indebted Domestic Sector  
(million US\$)  
2006-2016



Let's shift to more domestic variables and their performance

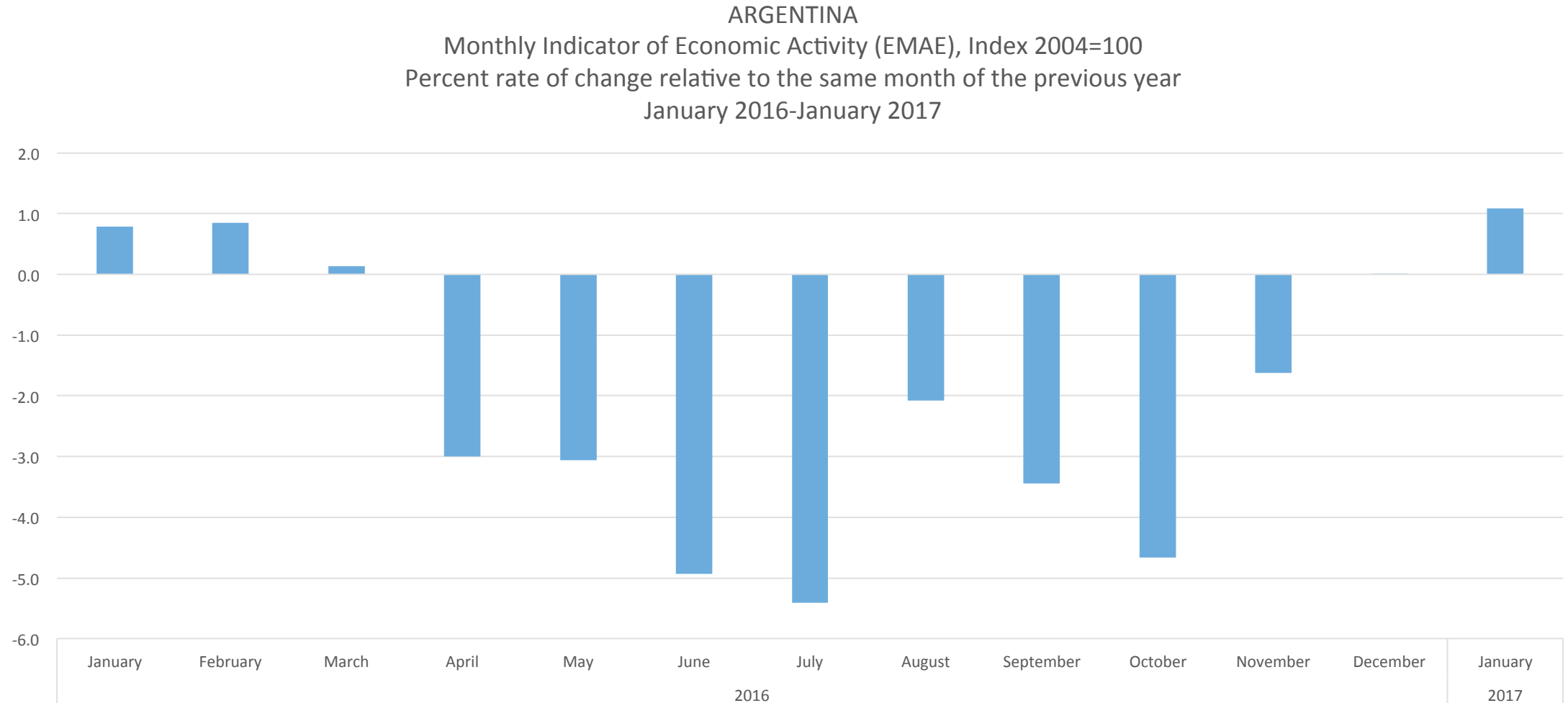
GDP figures shows a deterioration of economic activity in 2016, in fact, the second quarter of 2016 GDP was 3.7% below the same quarter of 2015 and for the full year it declined 2.3% relative to that of 2015

ARGENTINA  
Quarterly GDP at Constant - 2004 - prices,  
Percent change relative to same quarter of previous year  
2015-2016

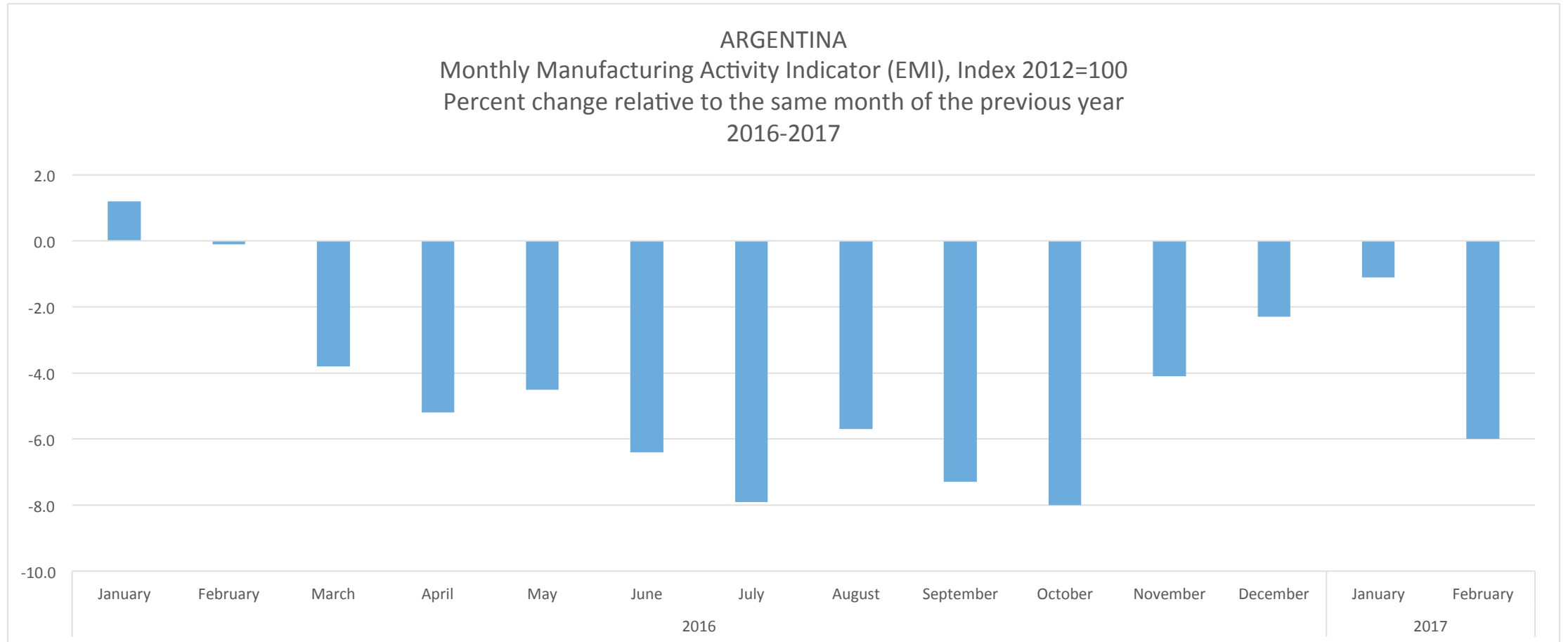




By July 2016 a monthly indicator of economic activity would show a reduction of 5.4 percent relative to the same month of 2015 followed by smaller decreases afterwards albeit with a slight recovery at the beginning of 2017

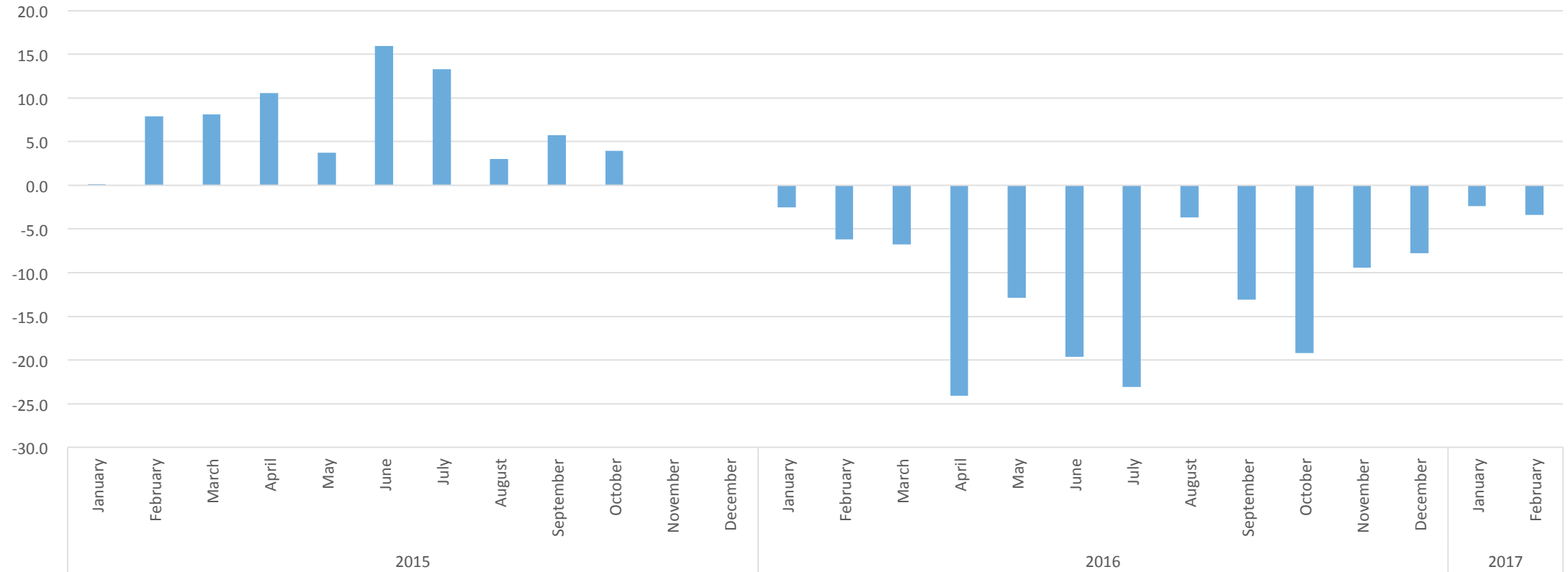


# The more updated index of manufacturing activity doesn't even show a recovery at the beginning of 2017

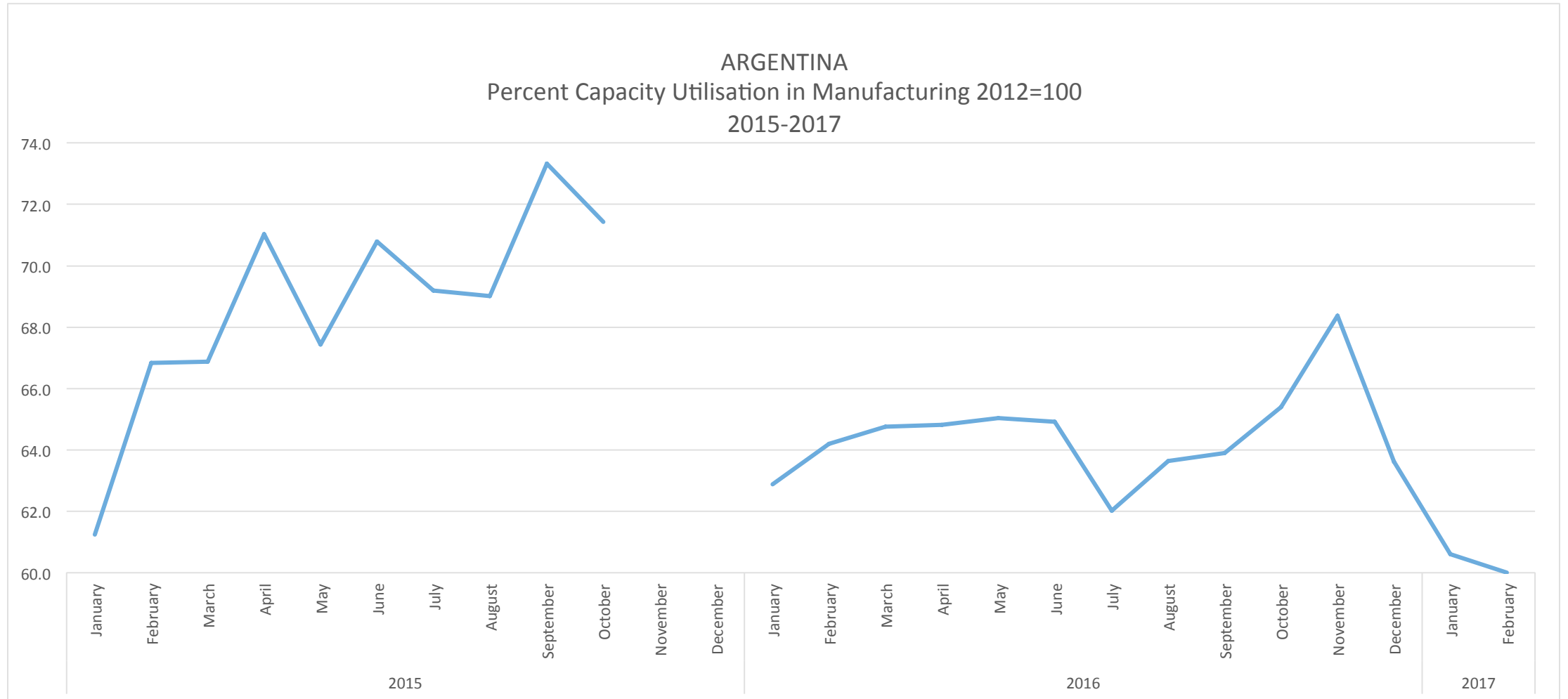


# Construction doesn't show but a diminishing decline relative to the previous year

ARGENTINA  
Construction Activity Indicator, Index 2004=100  
Variations relative to the same month of the previous year  
January 2015-February 2017

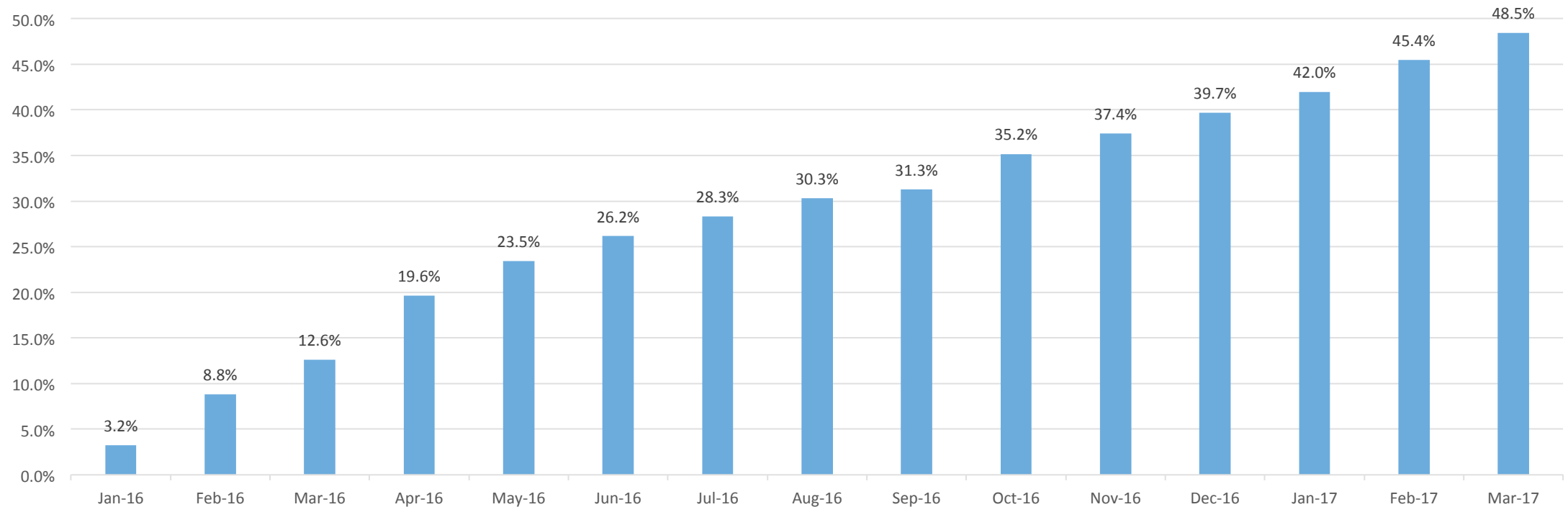


# Capacity utilization in manufacturing confirms a lack of recovery, in fact a new decline



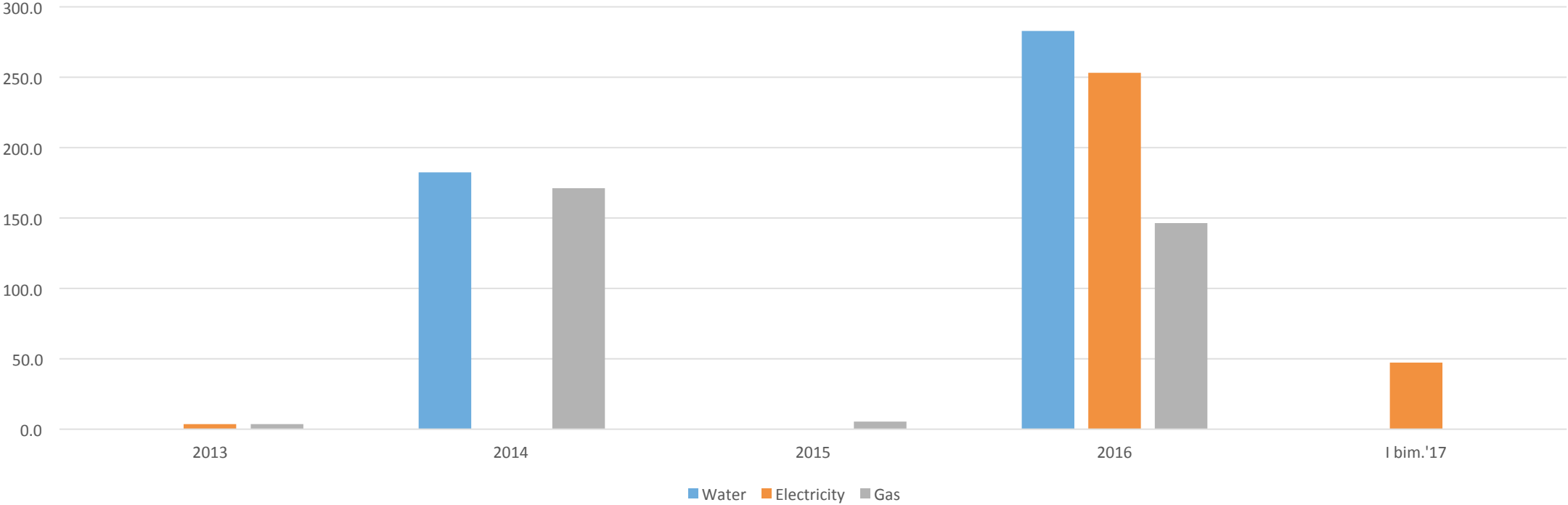
Inflation didn't stop; there was an accumulated increase in consumer prices over a period of 5 months of 26 percent and of almost 40 percent over the year 2016

ARGENTINA  
Consumer Price Index, 2014=100.0  
Accumulated Inflation relative to December 2015  
2016



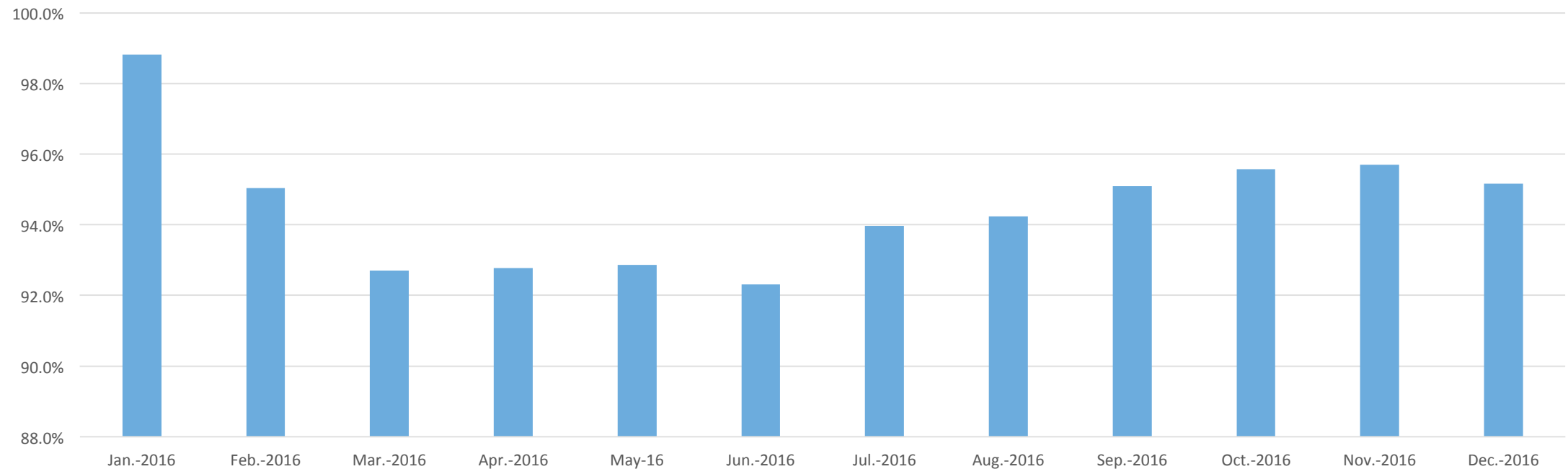
# Additional to the impact of devaluation and elimination of export taxes on some food exports, inflation was fed by drastic rises in public utility rates

ARGENTINA  
Rise in public utilities' rates  
2013-2017



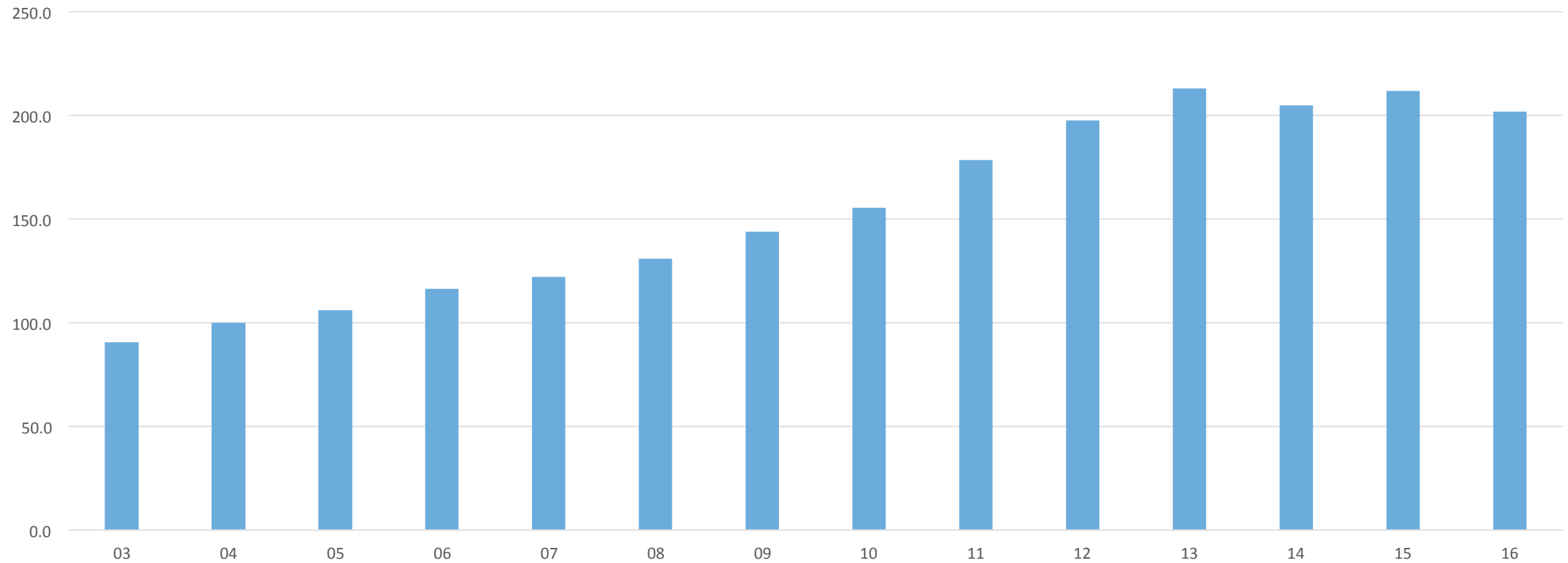
Real wages of registered workers in the private sector under the impact of high inflation experienced a decline – accumulated 7.7 percent relative to December 2015 – over the first half of 2016 to recover half of the loss in the second half

ARGENTINA  
Private Sector Registered Workers  
Real Wages relative to December 2015  
2016



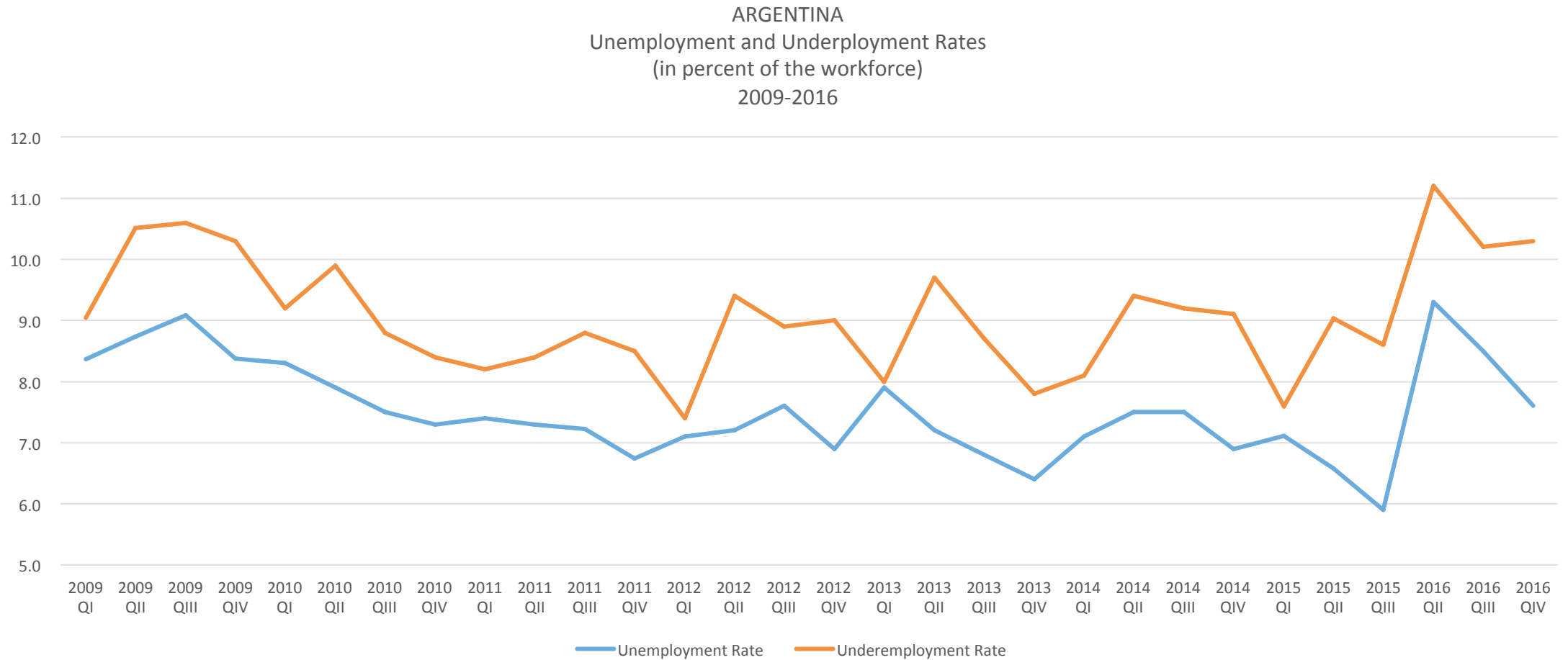
In the previous decade real wages of registered workers had experienced significant increases peaking in 2013

ARGENTINA  
Real Wages Index, 2004=100.0  
2003-2016

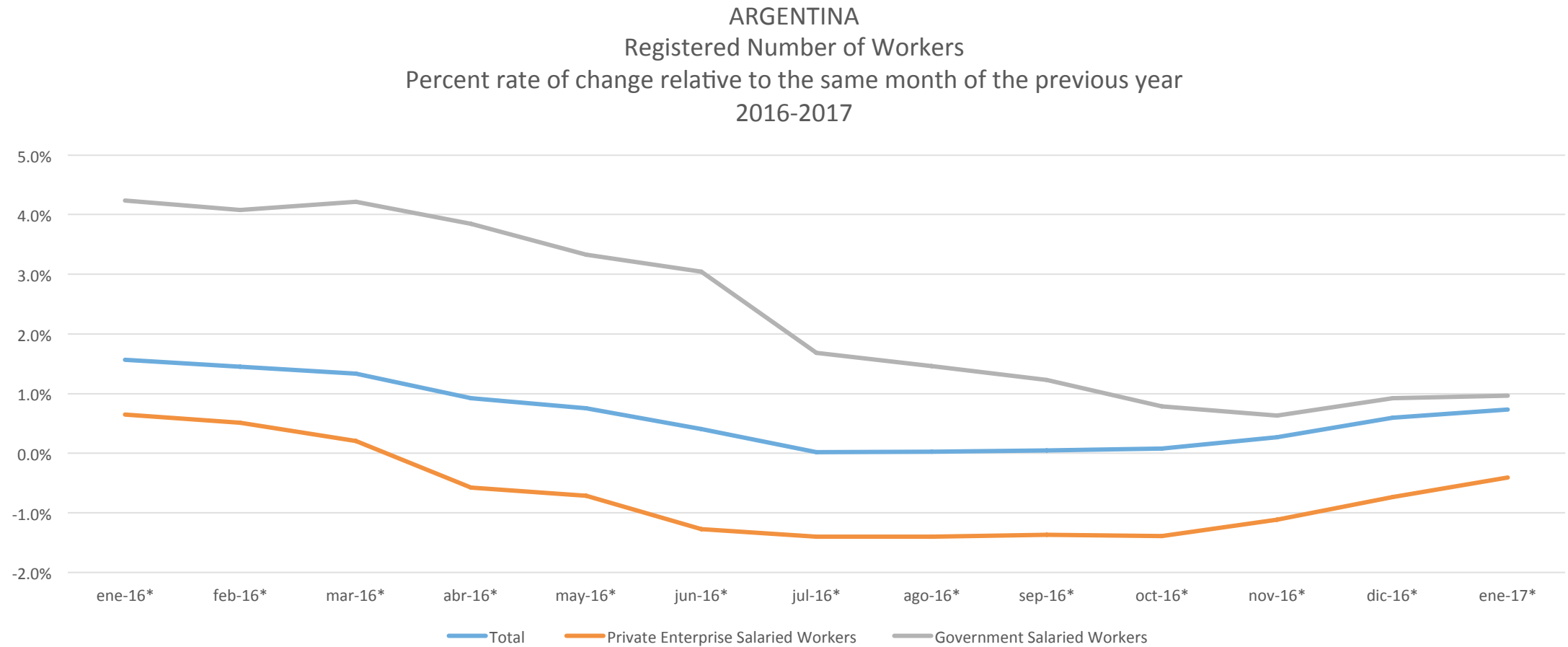




After the beginning of the global crisis in 2009 unemployment and underemployment rates tended to decline but they both increased in the last year

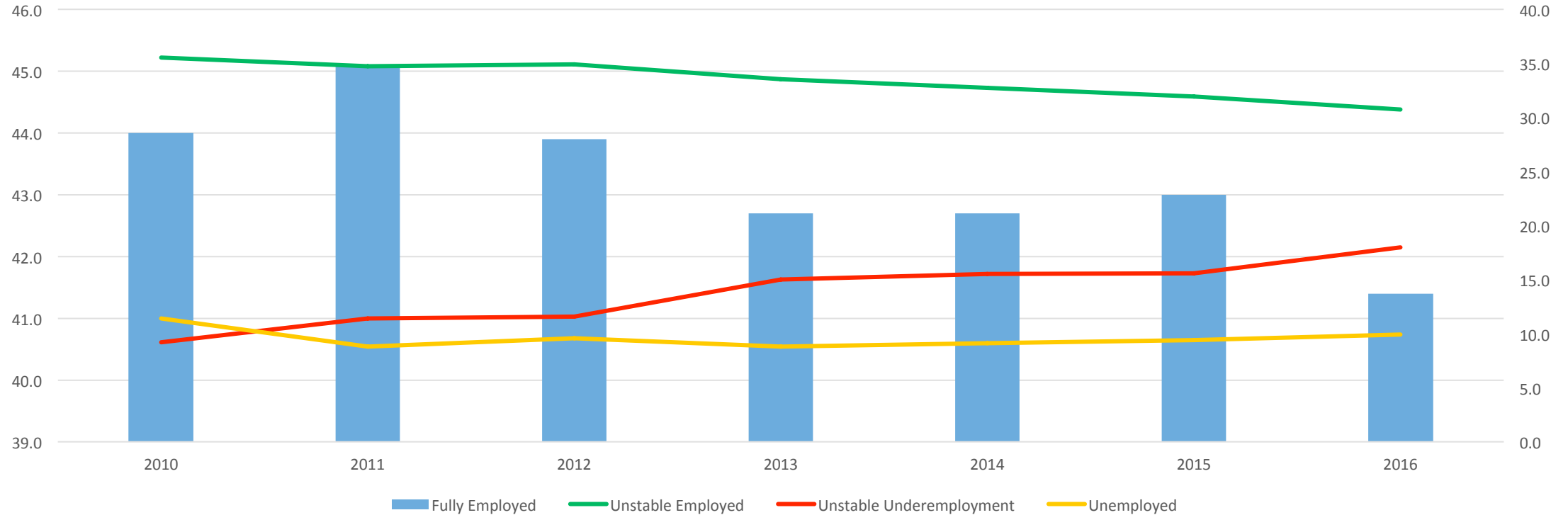


The rate of growth of the number of registered workers declined over the first half-year, becoming negative in the private sector, to gradually recover towards the end of 2016, still in negative terrain for this sector



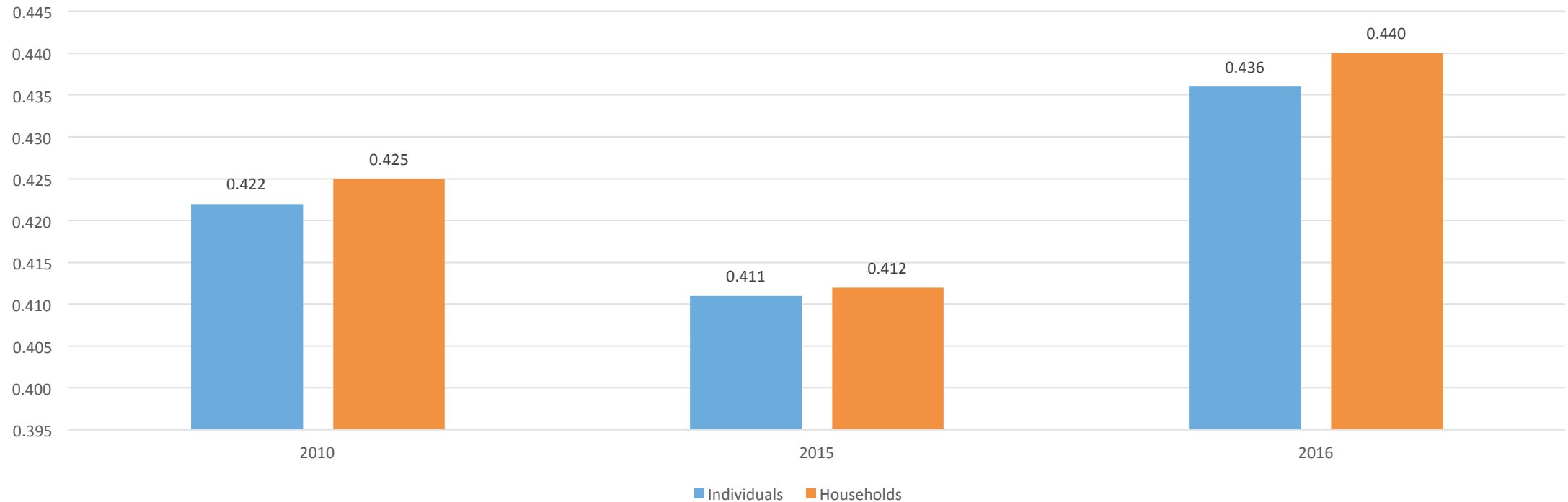
The result is a further reduction in the fully employed accompanied with a significant increase in those under unstable underemployment

ARGENTINA  
Employment, Underemployment and Unemployment  
(in percent of the Economically Active Population)  
2010-2016

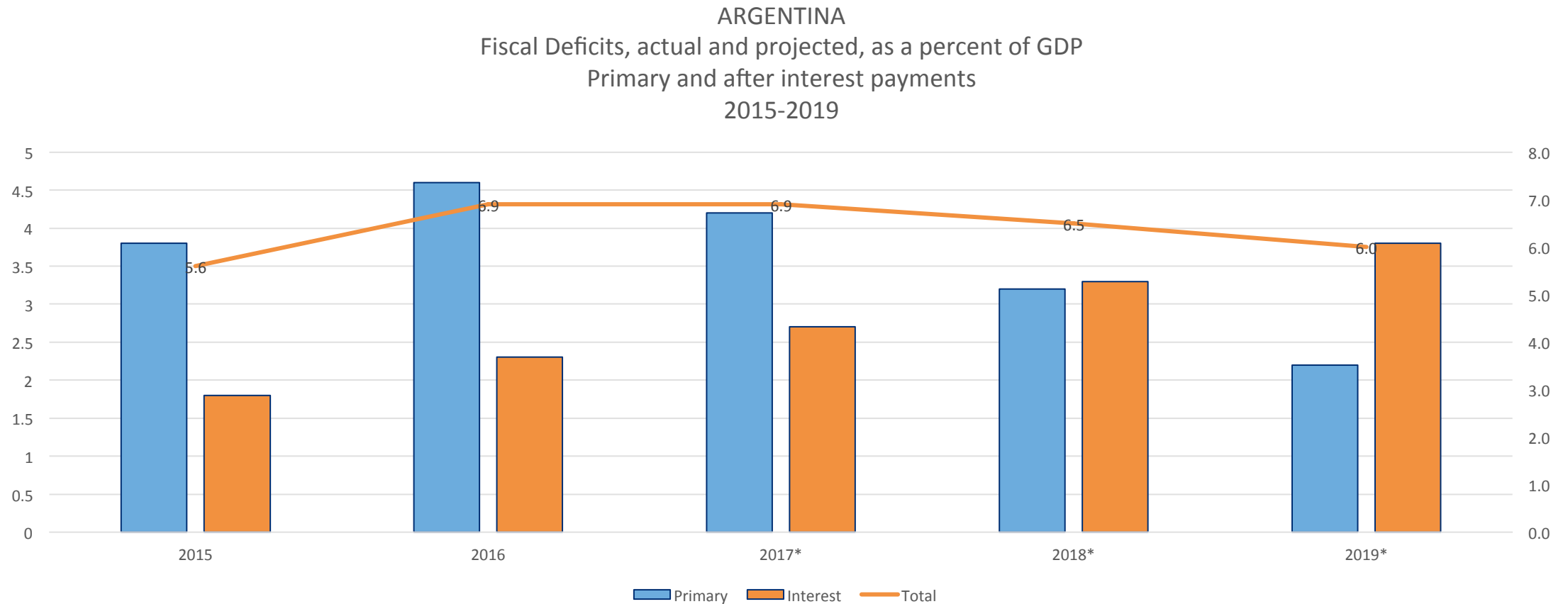


# Inequality, as measured by Gini coefficients that had been diminishing experienced a significant increase

ARGENTINA  
Gini Coefficients  
2010-2016



The new government made it a point that the fiscal deficit would be shrunk but in fact it ended up being increased both the primary one and interest payments



In fact notwithstanding all the pronouncements and pressures to shrink the deficit it did increase; elimination of taxes on agricultural and mineral exports plus the impact of recession as well as some increase in expenditure were only marginally compensated by the tax amnesty

ARGENTINA			
Fiscal Balance			
(in percent of GDP and pp)			
	2015	2016	Increase or Decrease
Primary Deficit	-4.2	-4.6	-0.4
Primary deficit net of amnesty	-4.2	-5.9	-1.7
<u>Revenues</u>	<u>20.2</u>	<u>20.4</u>	<u>0.2</u>
Amnesty		1.3	1.3
Net of Amnesty	20.2	19.1	-1.1
<u>Expenditure before Interest Payments</u>	<u>24.4</u>	<u>25.0</u>	<u>0.6</u>
Current	21.6	22.7	1.1
Capital	2.7	2.3	-0.4
Source: Instituto de Trabajo y Economía, Fundación Germán Abdala			

# What about the restrictive central bank's policies

- M0 increased – over the year 2016 – 26.6%; the main sources of expansion were profit transfers plus lending and purchases of foreign exchange to the Treasury (26.9% and 24.9, respectively of the expansion); local currency therefore is created only to some extent by outright lending to the government but by purchasing the foreign exchange from new foreign indebtedness that somehow, as in the 1990's is presented as more legitimate;
- M3\* - includes deposits denominated in dollars including those arising out of the tax amnesty – increased 35.2% not far away from the inflation rate.

## Those main factors of expansion of MO were partially sterilized

- Sterilization involved an increase of 105.6% in issuance of the Bank's own debt and an increase of 59.6% in passive swaps with the banking system
- Both operations at very high interest rates – between 20 and 38 percent per year - in an attempt to stop inflation with that instrument inflation targeting having been adopted.
- For all the proclamations of adoption of such a rule the true instrument of inflation control has been the almost fixation of the exchange rate to the US\$ at the cost of the overvaluation of the peso we have examined before.



**THANK YOU VERY MUCH!**