Argentina, the Road to 2011: Economic and Political Outlook

Fernando Straface,
Executive Director

Lucio Castro,
Director,
International Economics Program

AS/COA
New York, April 28, 2010
The leading Think Tank in Argentina, and top five in Latin America (Foreign Policy)

- We conduct high-quality, independent research in all public policy areas
- We analyze current public policy events, but with a long run perspective
- High impact and agenda-setting capacity
- We understand the politics behind the public policies
Key metrics of CIPPEC

- Staff of 90; Budget of USD 2.5 million (2009)
- Diversified sources of funding
- Strong media presence:
  - 1,416 mentions in national media (2009).
  - 455 articles citing or featuring CIPPEC in national newspapers (2009).
  - 40 articles in international media in the same year (5 from BBC, 4 from The Economist, 2 from the NYT, 2 from CNN).

Funding sources in 2009 (in %)

- International cooperation 47%
- Governments 23%
- Private companies 17%
- Individuals 13%

Source: CIPPEC
A Long term perspective
The last 20 years have not been lost

PPP-Based GDP Index 1990 - 2009
1990 = 100

Source: CIPPEC based on IMF (2010).
The fiscal front: a problem, not a crisis

**Federal Government revenues as a share of GDP**

2009 - 2011

- **Domestic taxes**
- **Export Taxes**
- **Contrib. to Social Security**
- **Property Income Taxes**
- **Other revenue**

**Federal Government Primary Expenditures**

a share of GDP

2009 - 2011

- **Wages & Salaries**
- **Current transfers to the Private sector**
- **Current transfers to Provinces**
- **Other expenditures**

Source: CIPPEC based on MECON and private sources.
The fiscal front: a problem, not a crisis (II)

- Fiscal deficit is likely to remain small in 2010-2011
- Recent Kirchner’s policies (inflation financing and stock confiscation) are no longer an option
- Using FX reserves is also costly politically
- BUT domestic financing via a bond to local banks is available
- Plus, the debt restructuring might open the way to a limited return to international markets

Y.o.y Federal Government Real Revenues and Primary Expenditures Growth Rates 2006 - 2011

Source: CIPPEC based on MECON and private sources.
The fiscal front: a problem, not a crisis (III)

Primary fiscal surplus needed to face the sovereign debt
2010 - 2011

-1.50%
-1.00%
-0.50%
0.00%
0.50%
1.00%
1.50%
2.00%
2.50%

2007 2008 2009 2010* 2011*

Baseline

Scenario I - successful debt restructuring

Scenario II - GDP growth 5.6% in 2010 and 3.5% and 2011

Scenario III - GDP growth 4% in 2010 and 2.8% in 2011

Scenario IV - Inflation rate
Bye, bye stop and go?
The soybean´s dollars rainfall

Agricultural production long term projections 2008-2020

Exports, imports and trade surplus
(in u$S millions)

Source: own calculations based on USDA (2010)

Source: Own calculations based on USDA 2010

Source: CIPPEC based on INDEC and private estimates
Out of the woods
The end of the recession

Labor demand index

Source: CIF-UDT (2010)
Accelerating inflation with unanchored expectations

Source: own calculations based on non-audited provincial statistical offices

Inflation expectations in the next 12 months (national)

April 10
Media: 30%
Median: 31%

Source: CIF-UTDT (March, 2010)
Looking for a nominal anchor
The road to FX real appreciation?

- Expected **nominal depreciation** for 2010 is 10%/12%
- With a **25% inflation rate**, the AR $ will inevitably **appreciate in real terms**
- Inflation differential with and **devaluation of main trading partners** are the other drivers
- Exchange appreciation could be a **concern** in 2011

Source: Analytica (2010)
An impossible mission?
The road to lower inflation in 2011

- The region shows that monetary policy works:
  - Inflation targeting and restoring CB and INDEC credibility are the road to follow.
  - A drastic fiscal adjustment is no needed.
  - Slowdown of public expenditure growth rate.
  - Reduce subsidies along with a social tariff and VAT for “poor-goods”.
  - Coordinate expectations.

Disinflation: the Emerging Markets Experience

Source: CIPPEC based on IMF/WEO (2010)
In the best of the worlds?
Favourable TOT and rapid growth in main trade partners

Terms of Trade 1810 - 2008
Long term trend and average
1810 = 100

Commodities prices in constant USD
1990 - 2020

Source: own calculations based on INDEC and Ferreres (2006)

Source: CIPPEC based on USDA and World Bank projections
A promising future
(if we get to 2011 relatively unharmed)

- Relatively low Debt/GDP, mostly in local currency and with a comfortable payments profile
- Still manageable fiscal situation
- Trading partners growing at high rates in the long term; very favorable terms of trade
- Confidence deficit could be relatively easy to reverse with reasonable macro policies.
- The beginning of an investment boom?
Now, the politics...
Growing dissatisfaction with the Government

Policy challenges are of medium complexity, but the current political climate is tense:

- Government has lost popular support since March 08
- Mid-term elections reinforced Government’s alienation

Source: Poliarquía Consultores
Perceptions on inflation have worsened

Source: Poliarquía Consultores
Same thing regarding poverty

Source: Poliarquía Consultores
...and corruption

Source: Poliarquía Consultores
Politics affect the policy agenda

- Stalemate in Congress since December 10th, specially in the Senate
- Unstable, minimal coalitions, defined in a bill-by-bill basis
- Government is willing to raise the stakes against a renewed but fragmented opposition
  - No willingness to promote political dialogue: paralysis and legislative deadlock
- Political crisis without governability crisis
- Low chances of change of direction until the next presidential election
How the presidential election looks today?

Positive and negative image of potential candidates

Source: Poliarquía Consultores
The candidates’ political compass

<table>
<thead>
<tr>
<th>State-oriented</th>
<th>Market-oriented</th>
</tr>
</thead>
<tbody>
<tr>
<td>Néstor Kirchner</td>
<td>Macri/Reutemann</td>
</tr>
<tr>
<td>Solanas</td>
<td>de Narváez/Scioli</td>
</tr>
<tr>
<td>Carrió</td>
<td>Macri/Reutemann</td>
</tr>
<tr>
<td>Alfonsín</td>
<td>Cobos</td>
</tr>
<tr>
<td>De Narváez</td>
<td></td>
</tr>
</tbody>
</table>

Source: Poliarquía Consultores and CIPPEC
Political outlook, 2010-2011

- Until next presidential elections, the political arena will focus on:
  - Inflationary pressures
  - International isolation
  - Confrontational dynamics in the domestic front
In short

- Argentina continues to enjoy an extremely favorable international economic context

- **Policy challenges** show some complexity, but not as dramatic as those of 1989-1990 or 2001-2002

- Politics will be fluid until Presidential elections, but a major crisis is unlikely

- Growing **negative consensus** among opposition forces to avoid the continuation of “bad policies”
Contact Info

Fernando Straface
Executive Director
fstraface@cippec.org

Lucio Castro
Director,
International Economics Program
lcastro@cippec.org