

## Argentina, the Road to 2011: Economic and Political Outlook

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New York, April 28, 2010

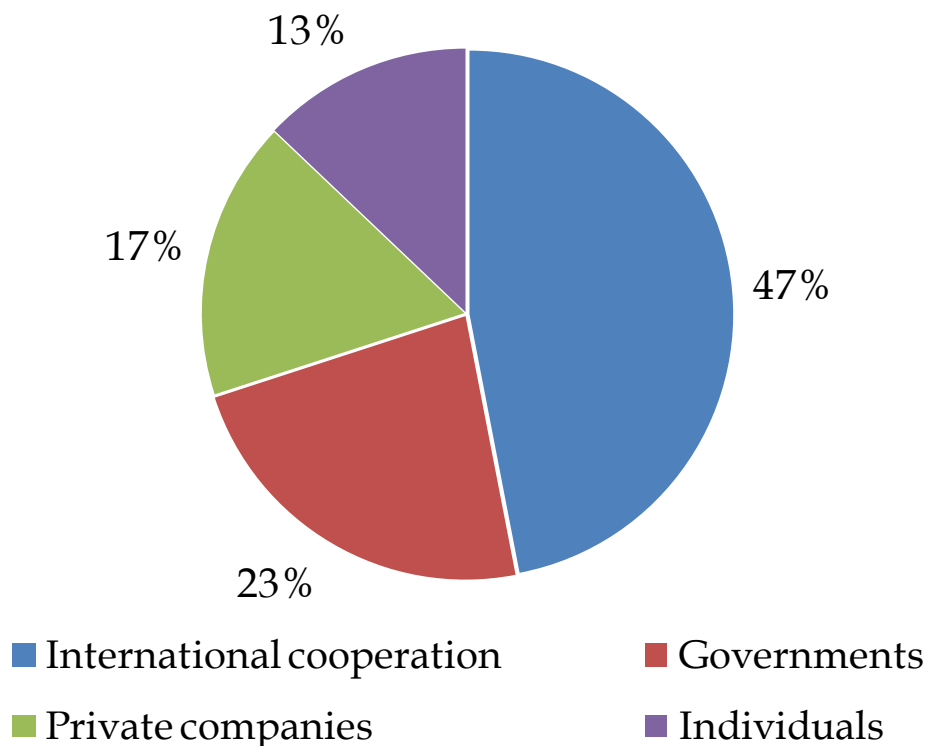
# The leading Think Tank in Argentina, and top five in Latin America (Foreign Policy)

- 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 %)**

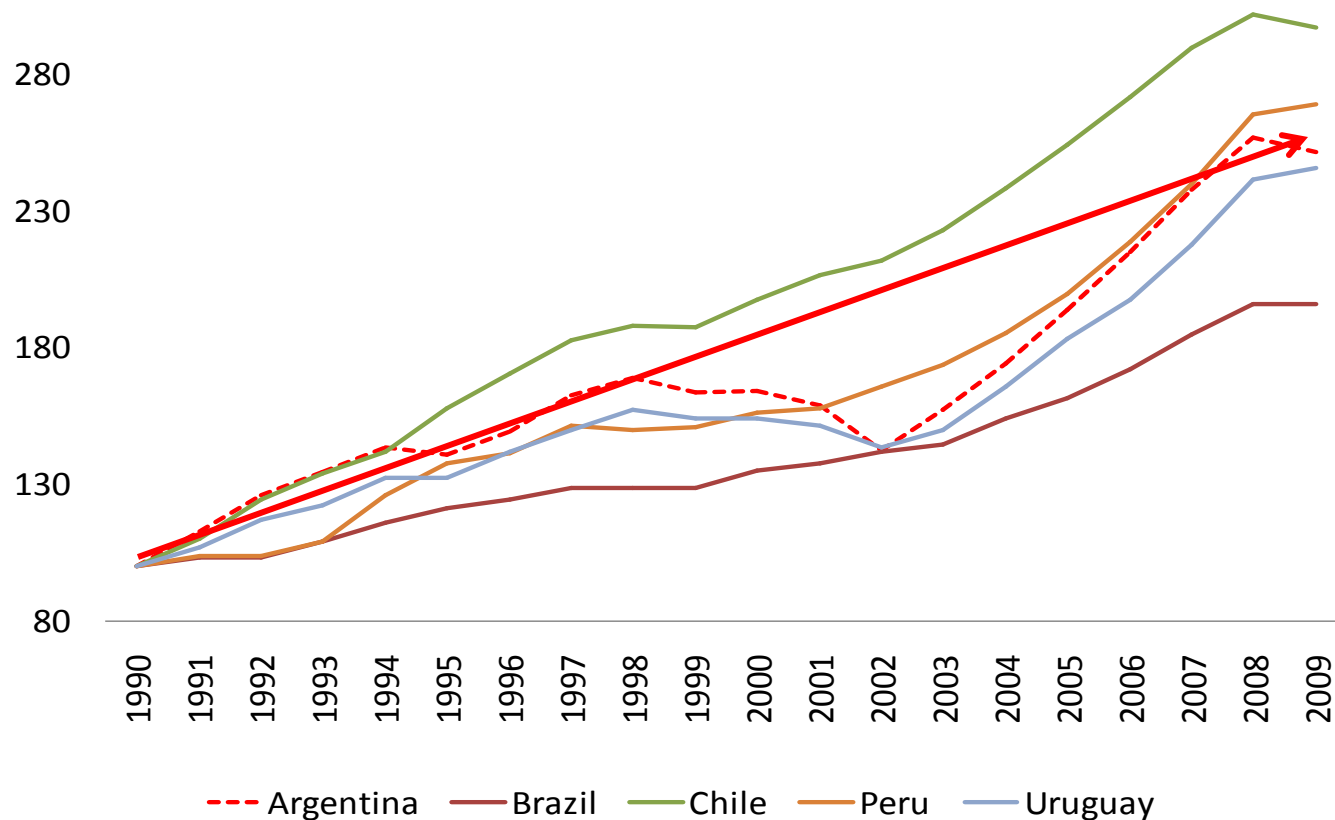


Source: CIPPEC

## A Long term perspective

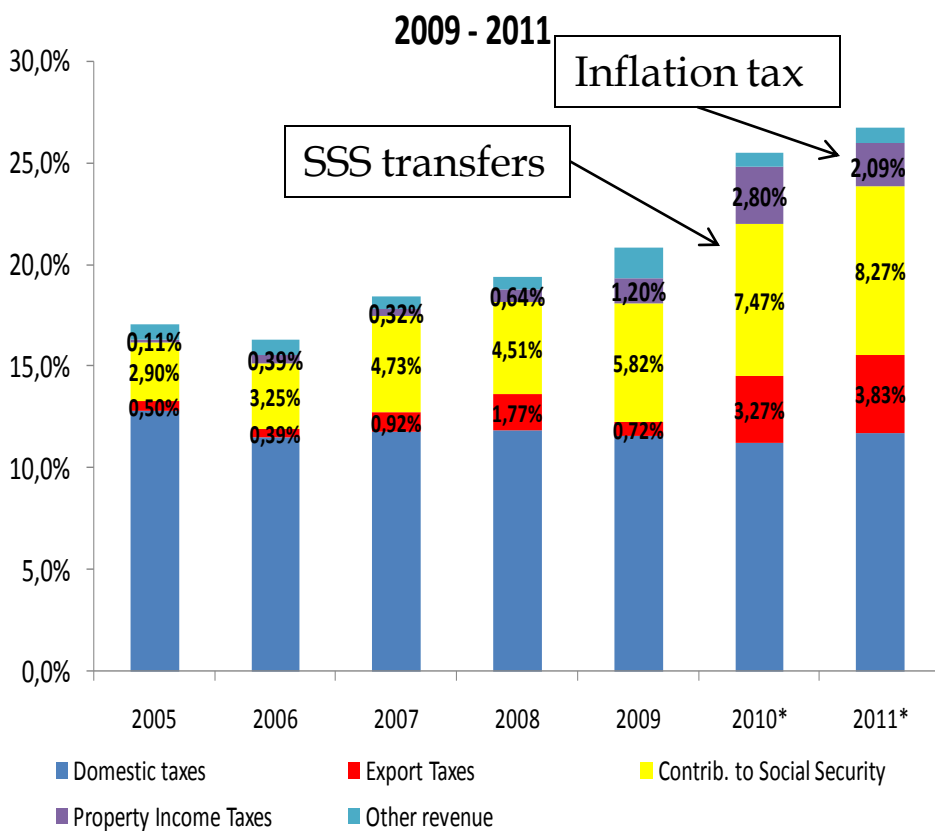
The last 20 years have not been lost

PPP-Based GDP Index 1990 - 2009  
1990 = 100

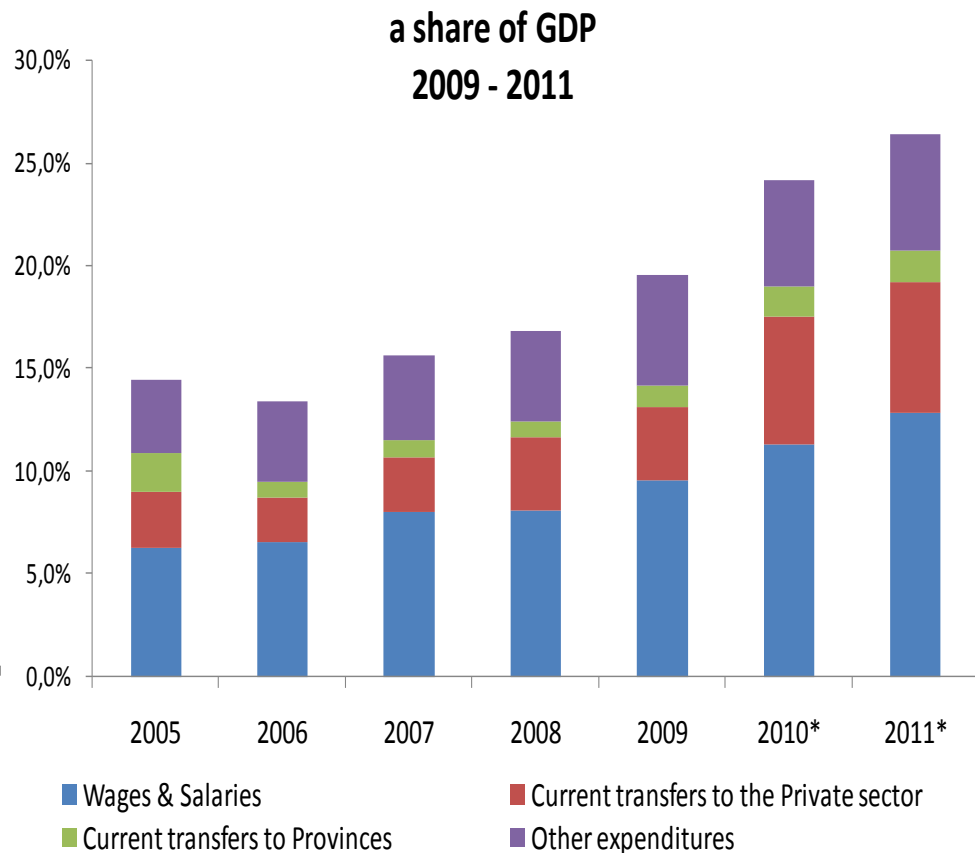


## The fiscal front: a problem, not a crisis

Federal Government revenues as a share of GDP



Federal Government Primary Expenditures

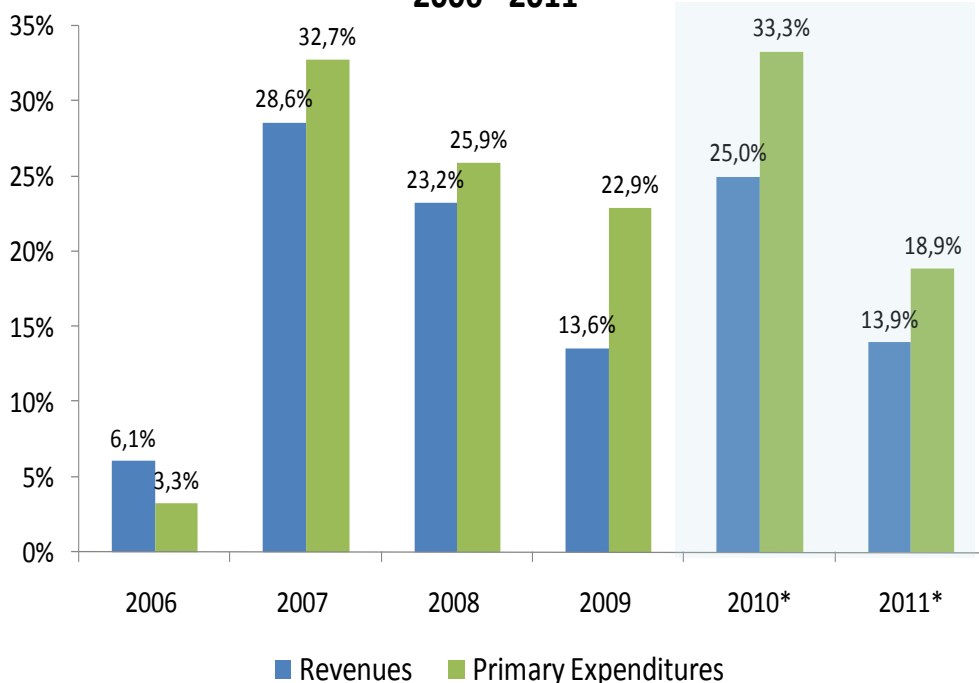


Source: CIPPEC based on MECON and private sources.

# The fiscal front: a problem, not a crisis (II)

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

2006 - 2011

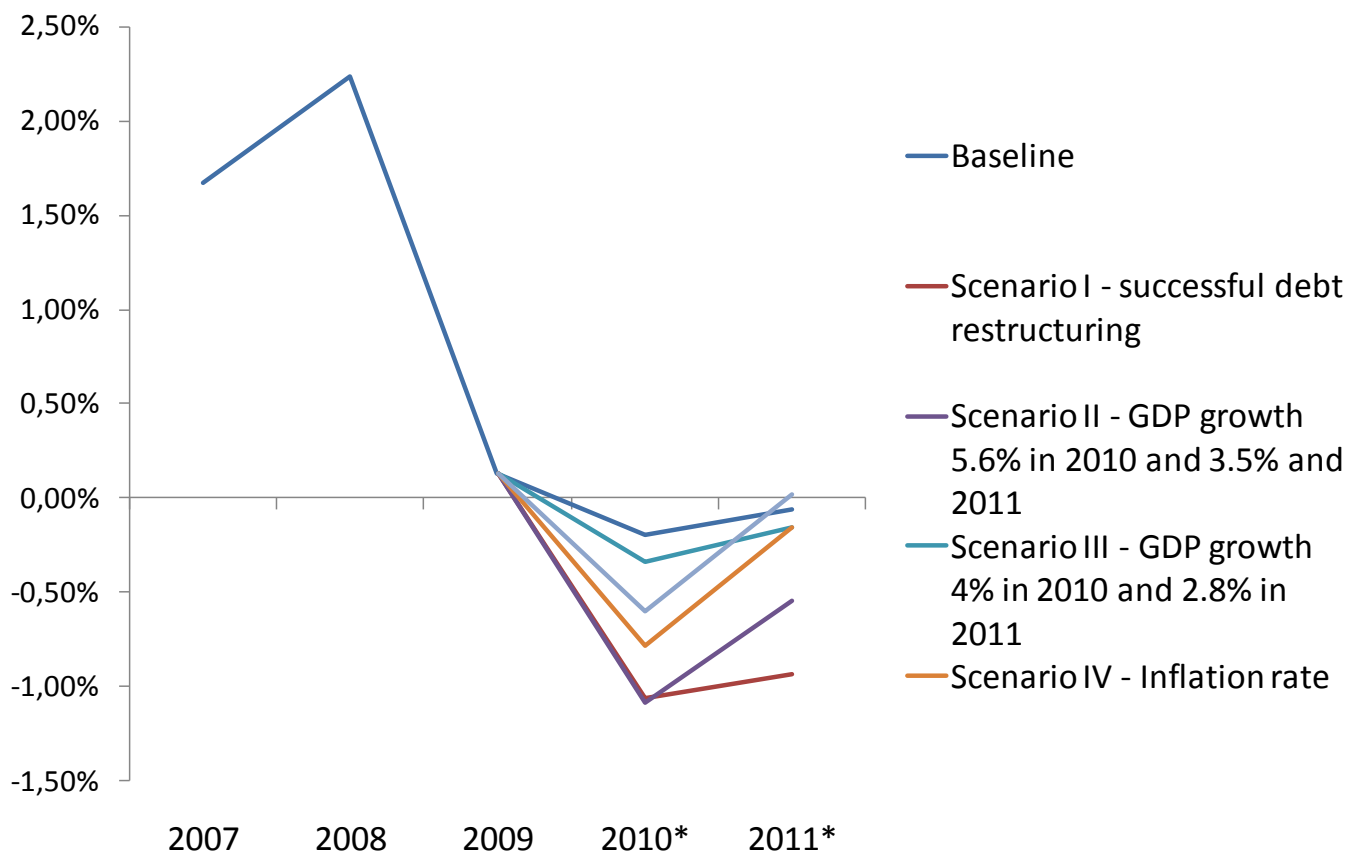


Source: CIPPEC based on MECON and private sources.

- 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

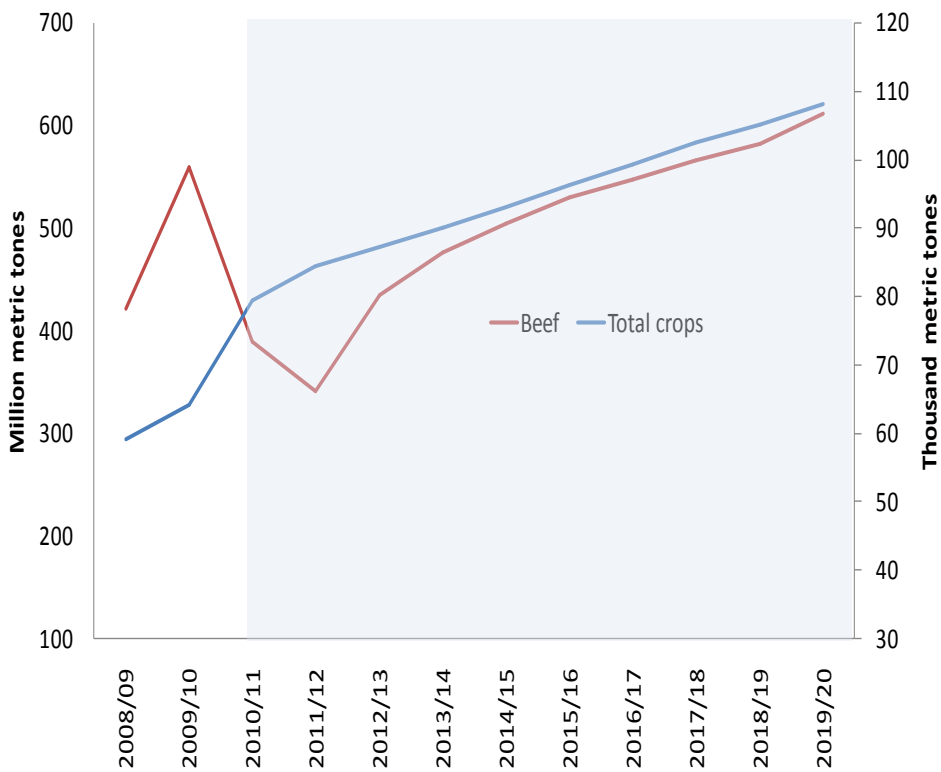
## The fiscal front: a problem, not a crisis (III)

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



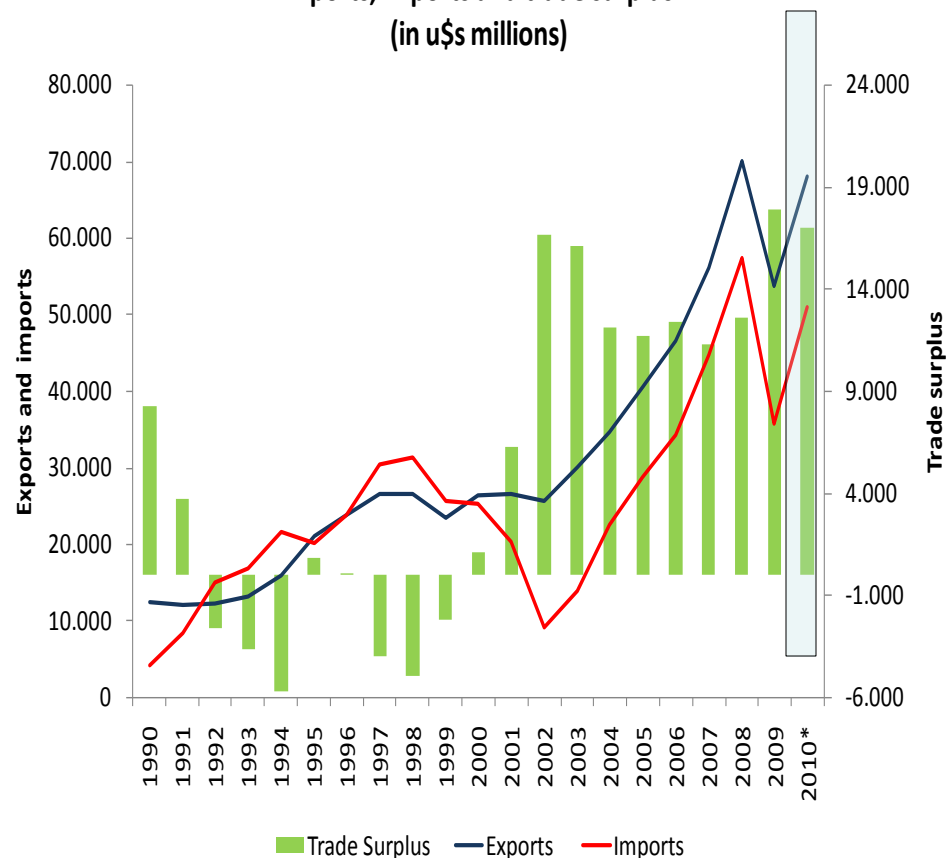
## Bye, bye stop and go? The soybean's dollars rainfall

Agricultural production long term projections 2008-2020



Source: own calculations based on USDA (2010)

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



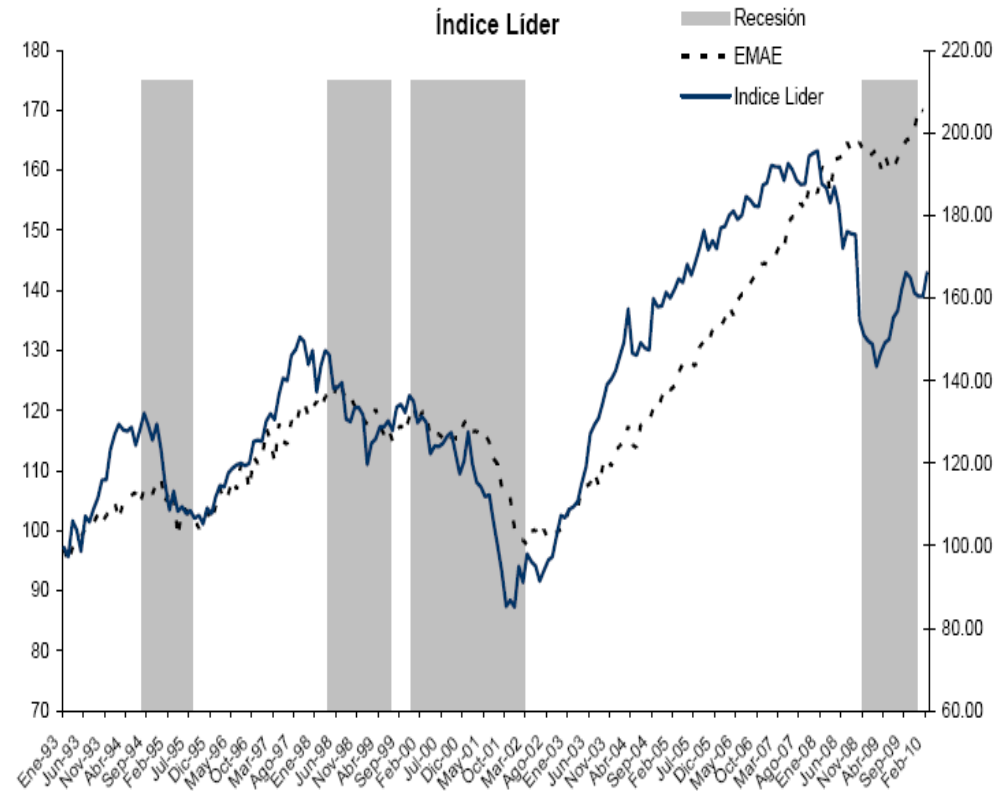
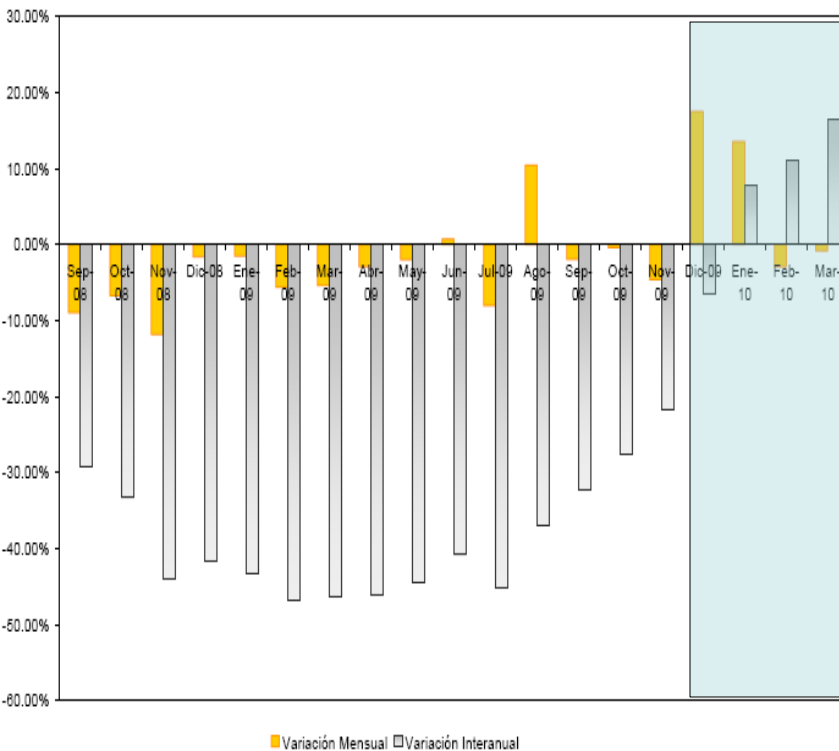
Source: CIPPEC based on INDEC and private estimates

Source: Own calculations based on USDA 2010



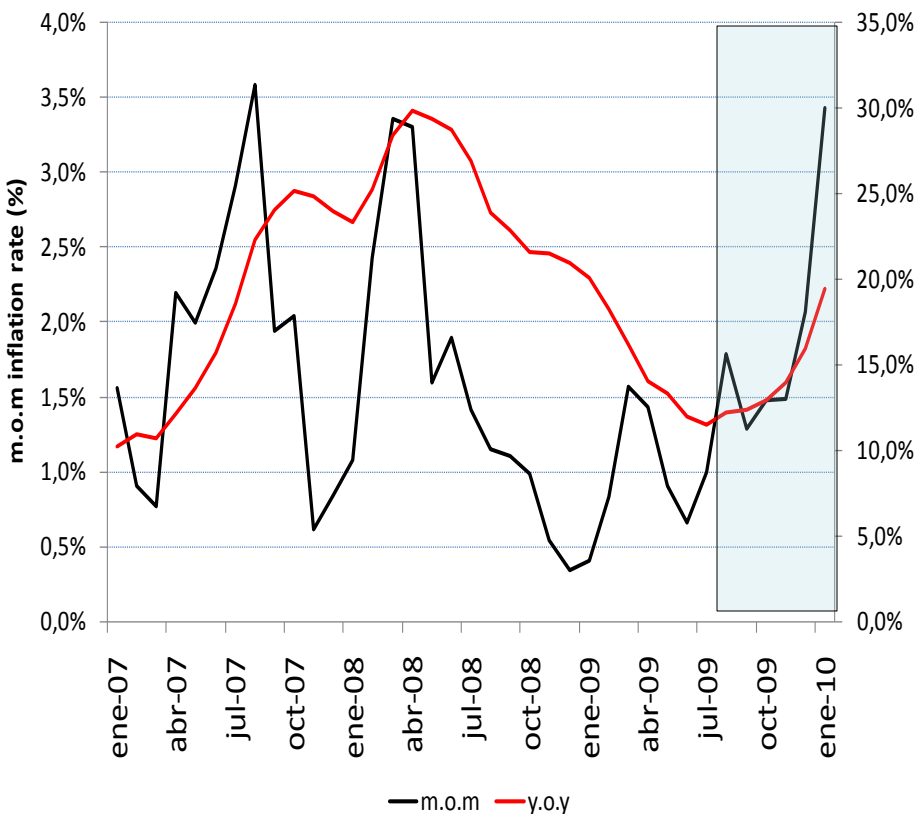
## Out of the woods The end of the recession

### Labor demand index

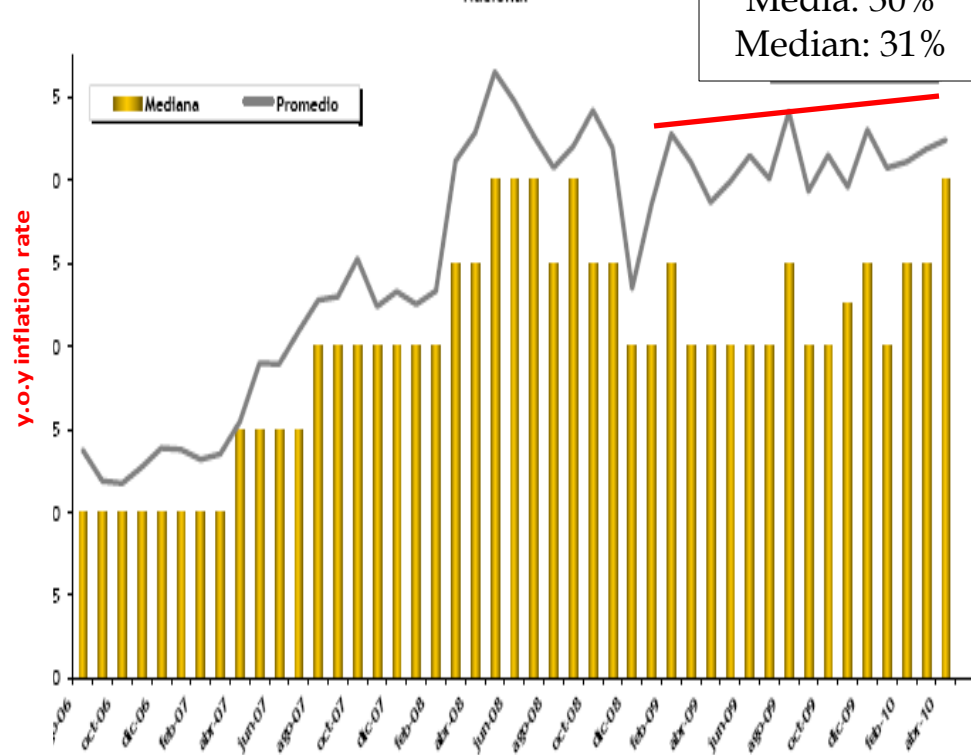


## Accelerating inflation with unanchored expectations

Monthly and annualized inflation rates (%)



Inflation expectations in the next 12 months (national)



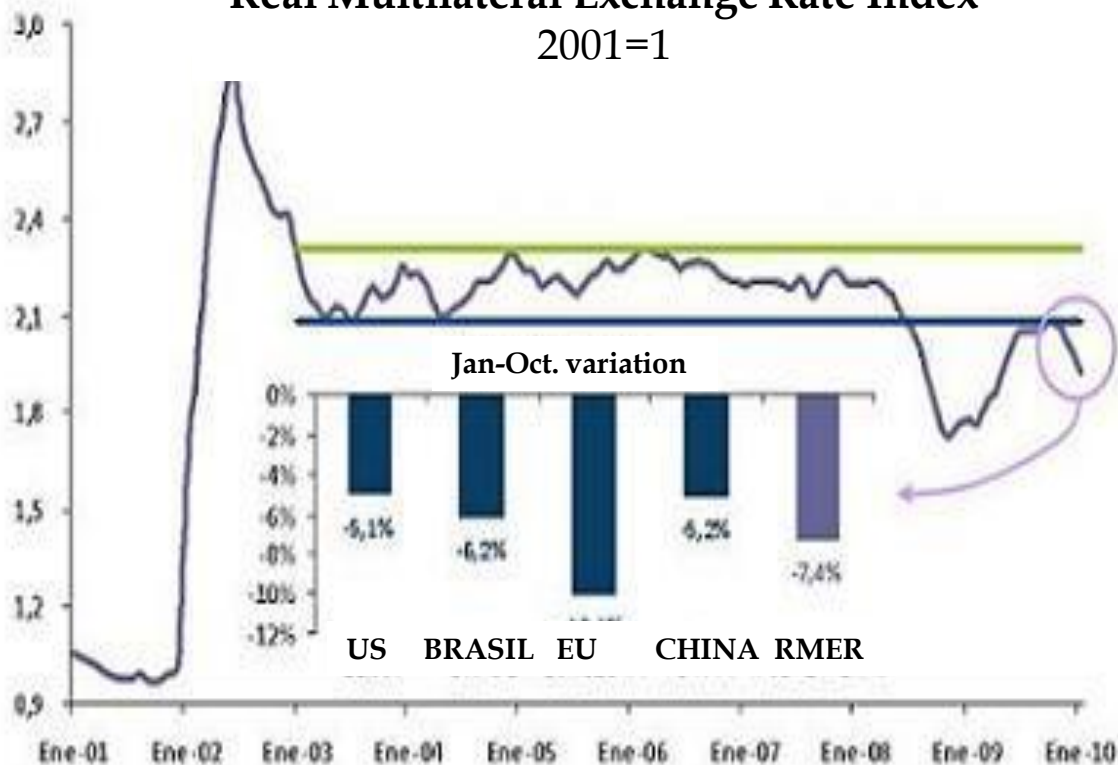
Source: own calculations based on non-audited provincial statistical offices

Source: CIF-UTDT (March, 2010)

## Looking for a nominal anchor

The road to FX real appreciation?

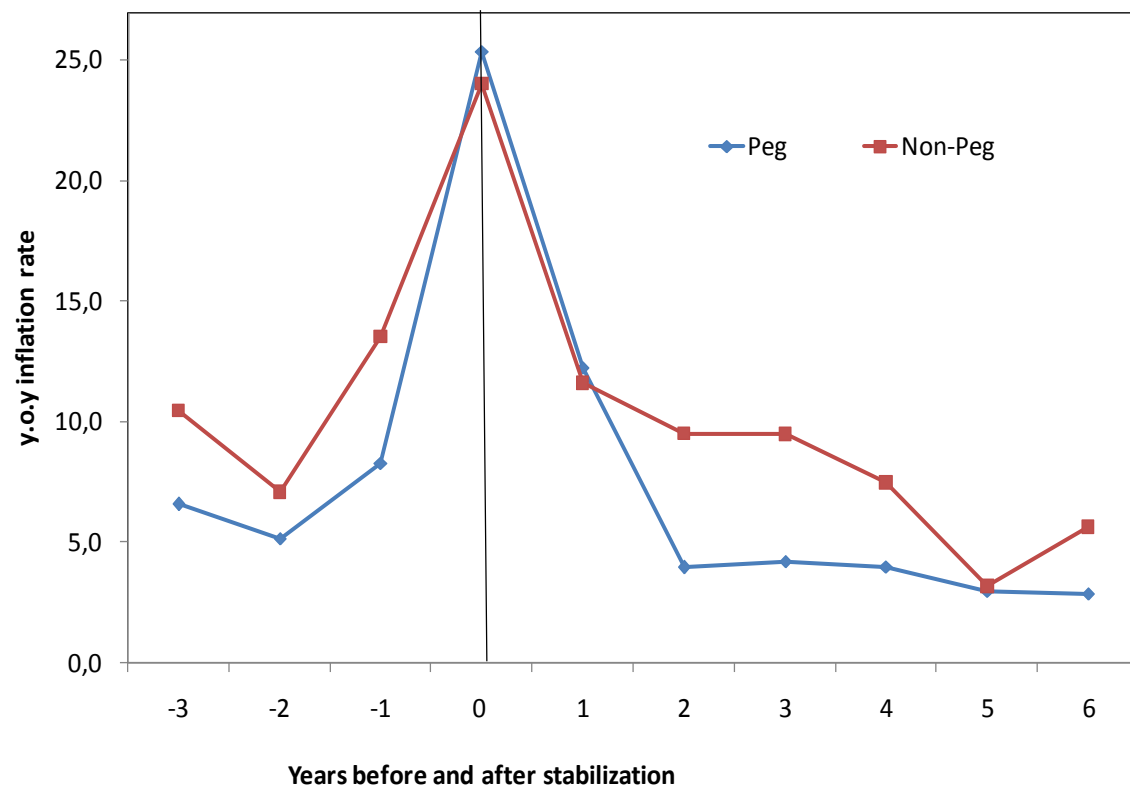
Real Multilateral Exchange Rate Index  
2001=1



- 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

## An impossible mission? The road to lower inflation in 2011

Disinflation: the Emerging Markets Experience



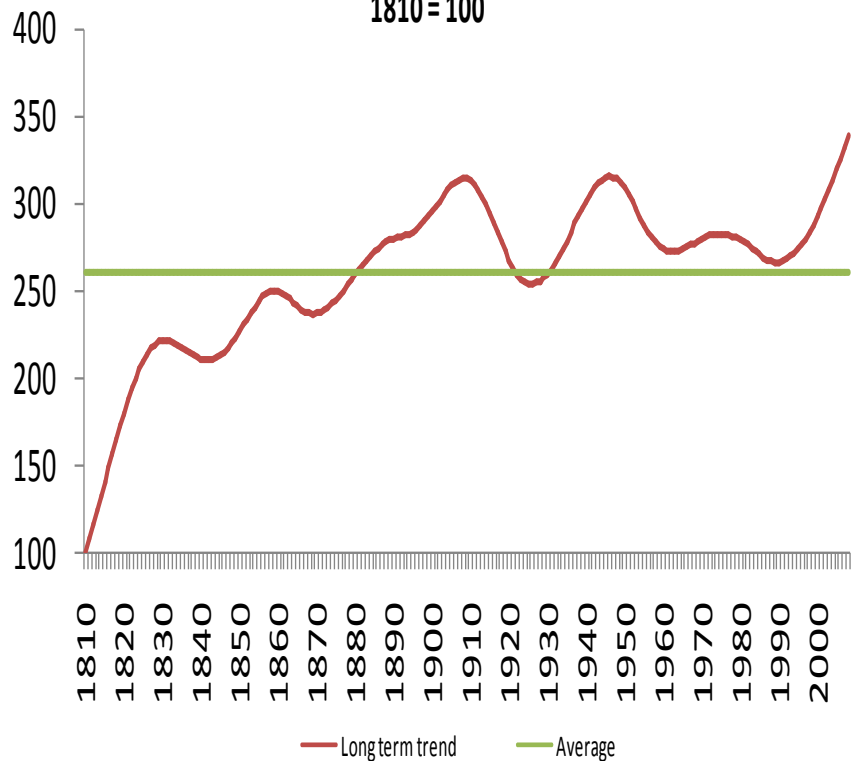
■ The region shows that **monetary policy works:**

- ✓ 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.**

## In the best of the worlds?

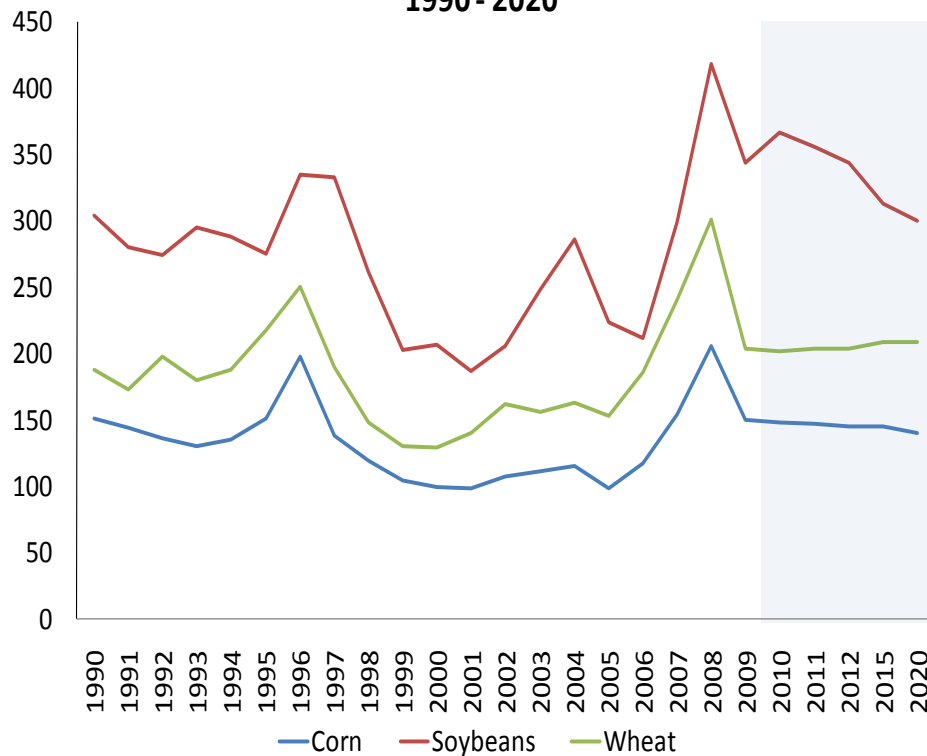
Favourable TOT and rapid growth in main trade partners

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



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

Commodities prices in constant USD  
1990 - 2020



Source: CIPPEC based on USDA and World Bank projections

## **A promising future**

(if we get to 2011 relatively unharmed)

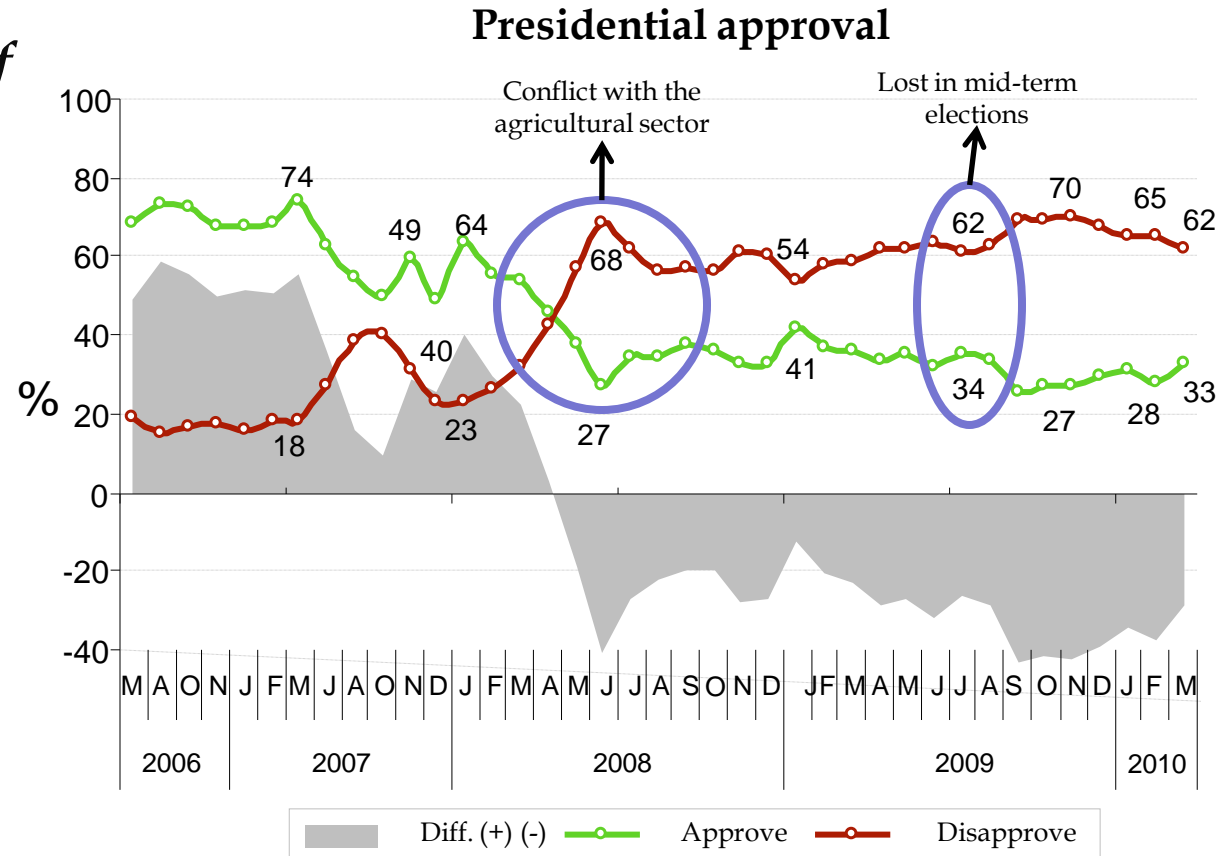
- **Relatively low Debt/GDP**, mostly in local currency and with a comfortable payments profile
- **Still manageable fiscal situation**
- **Trading partners growing at high rates in the long term; very favorable terms of trade**
- **Confidence deficit could be relatively easy to reverse** with reasonable 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:*

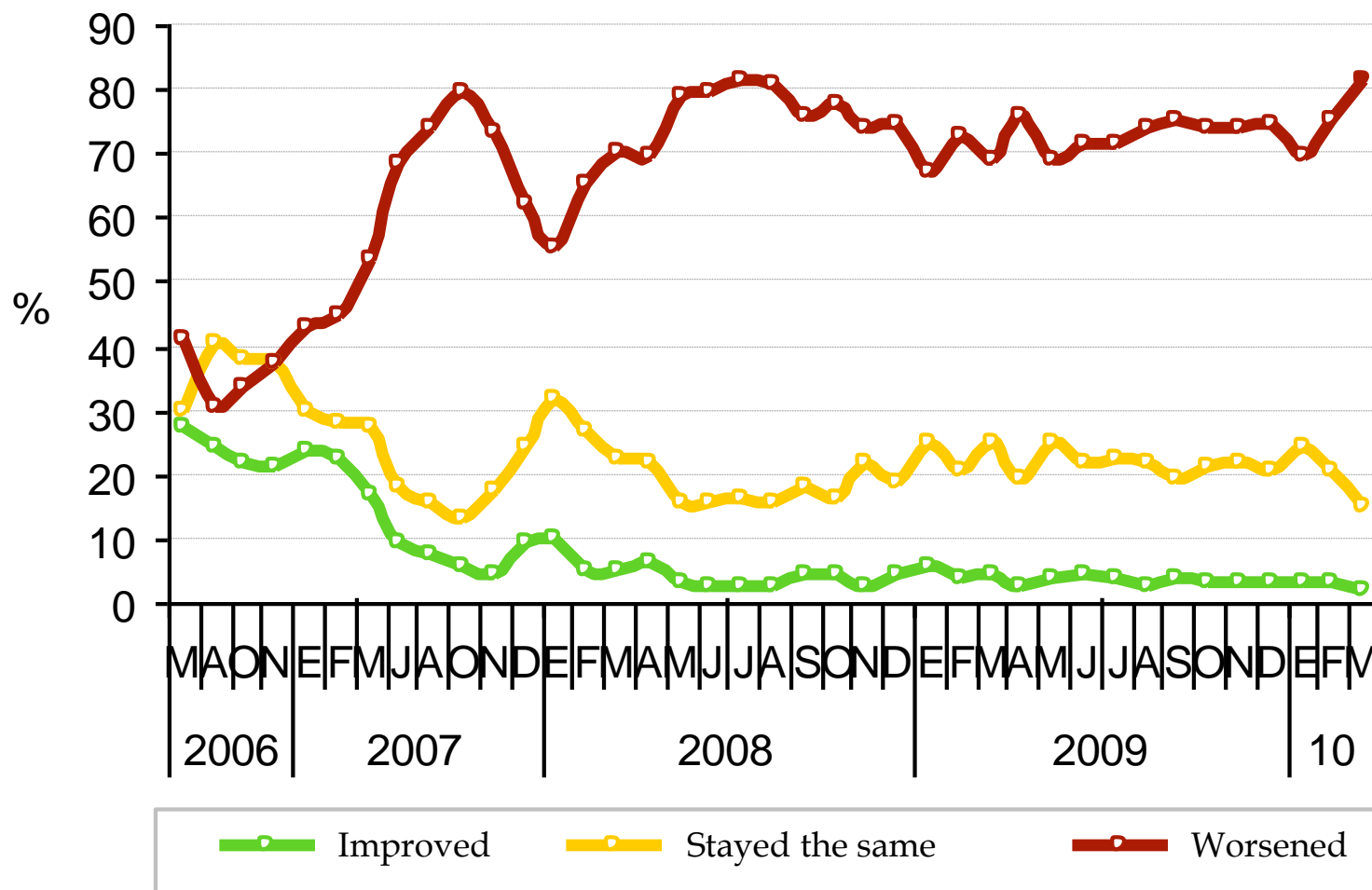
- Government has lost popular support since March 08
- Mid-term elections reinforced Government's alienation



Source: Poliarquía Consultores

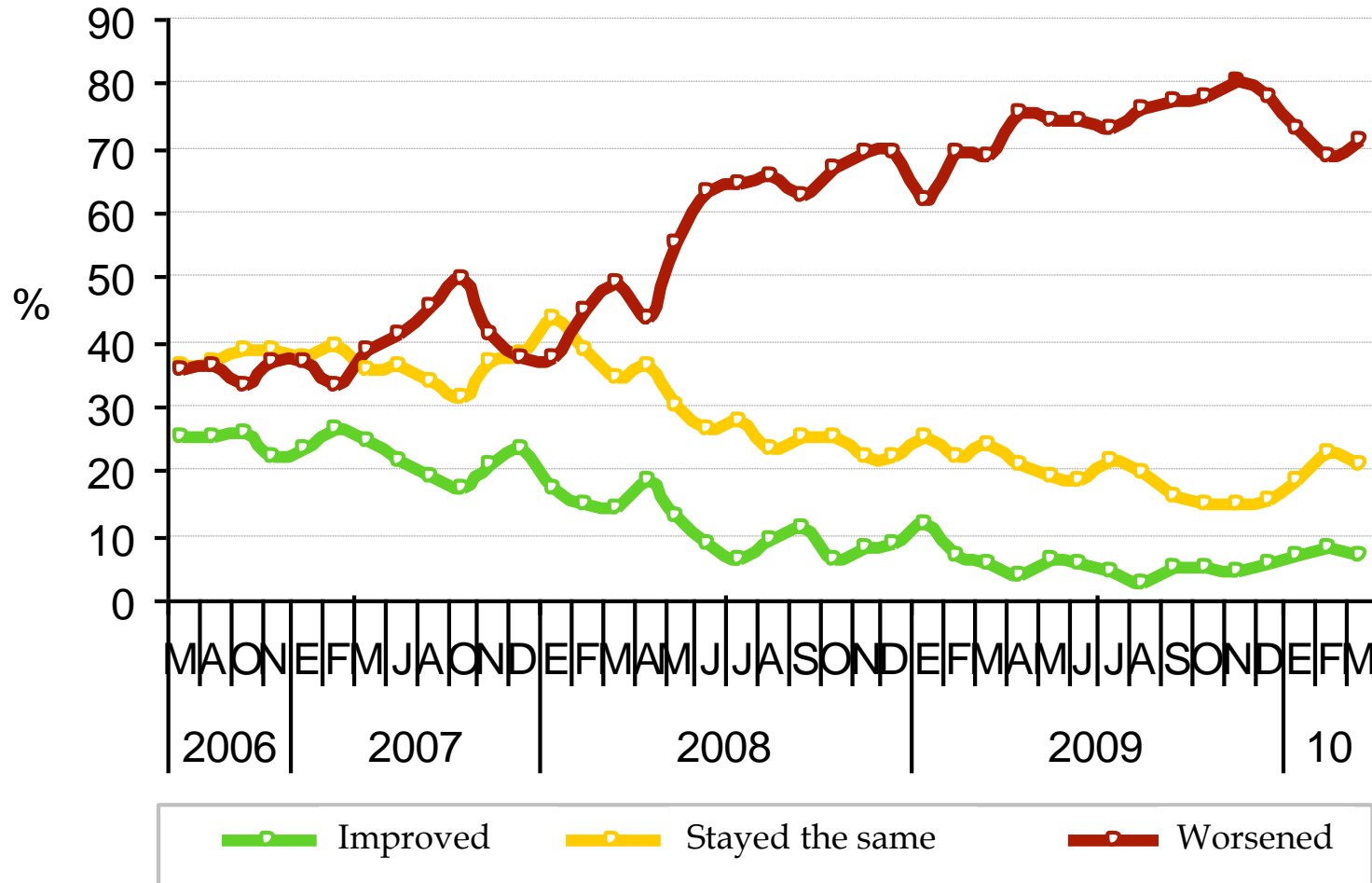


## Perceptions on inflation have worsened



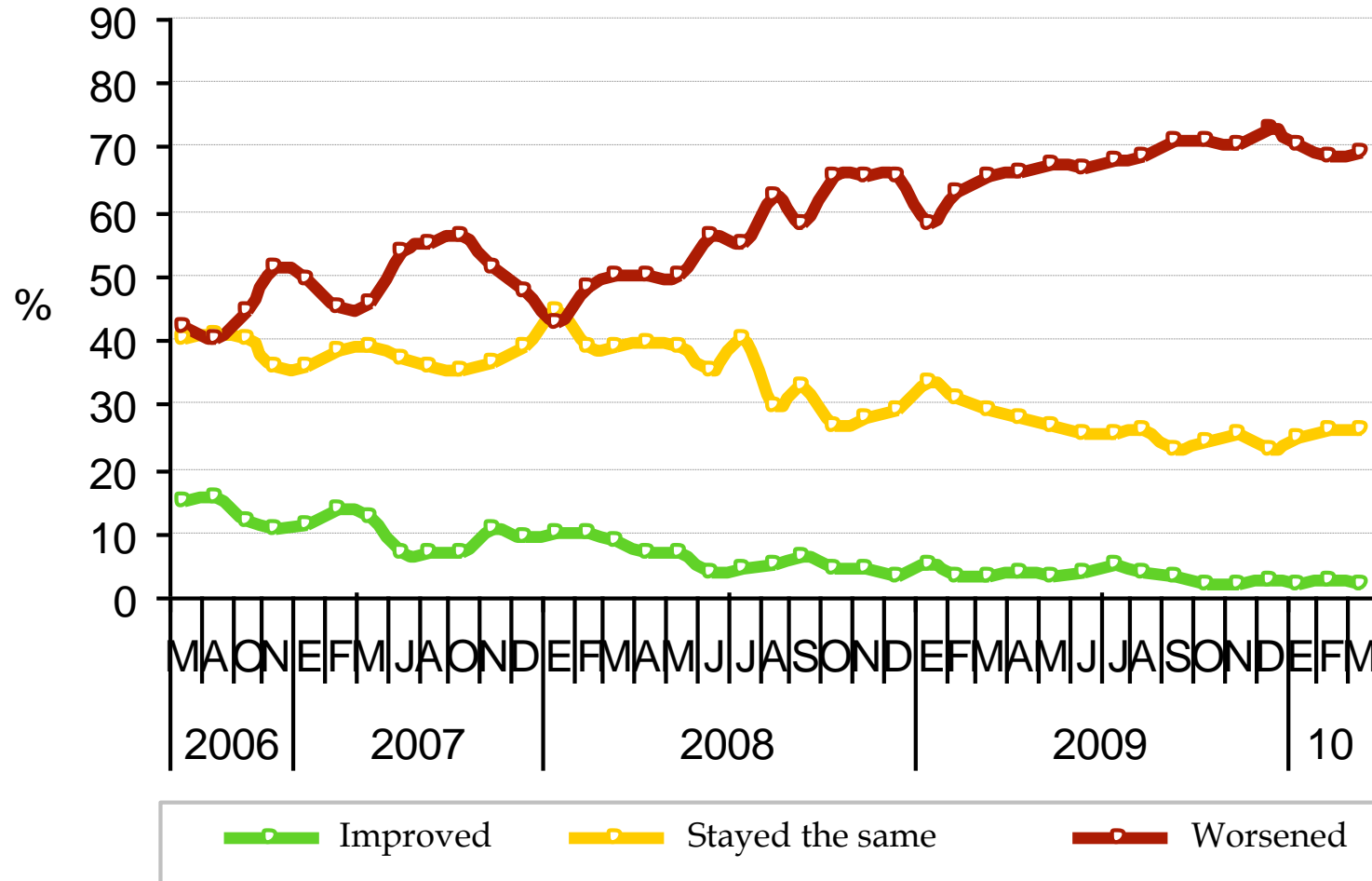
Source: Poliarquía Consultores

## Same thing regarding poverty



Source: Poliarquía Consultores

## ...and corruption



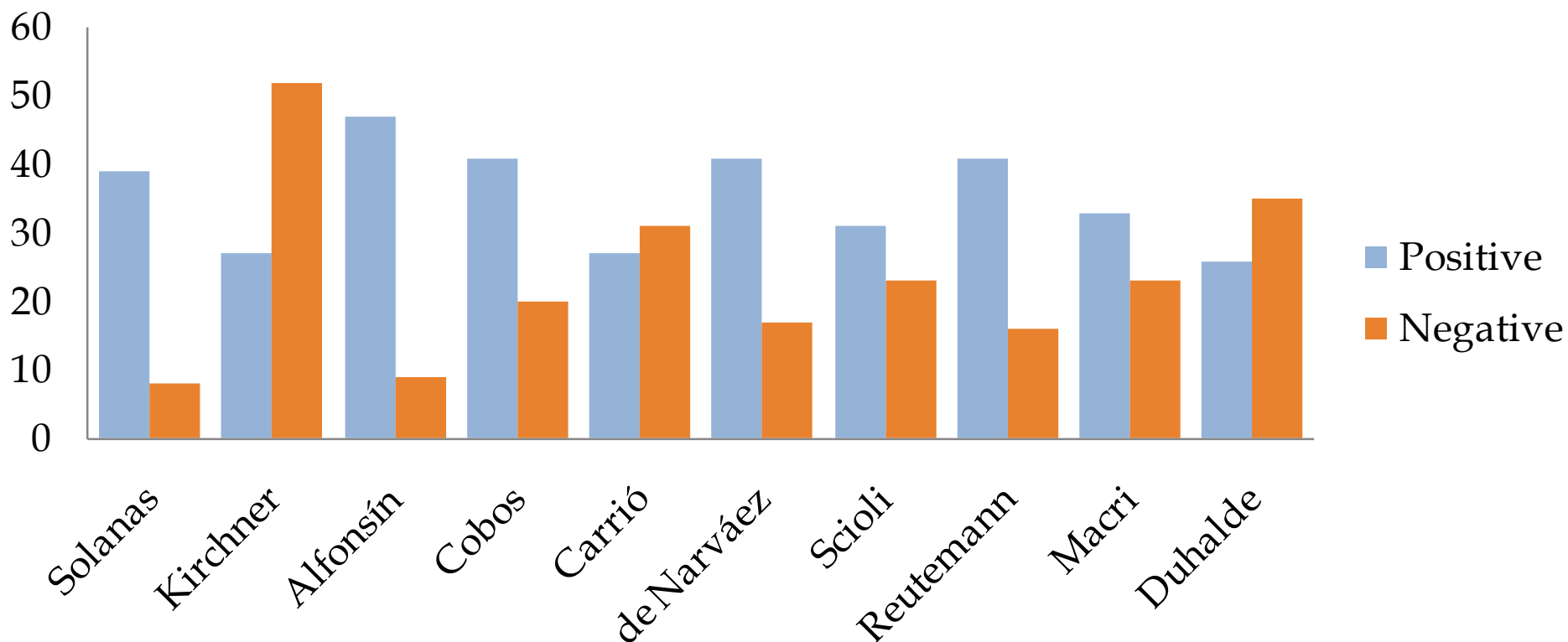
Source: Poliarquía Consultores

## Politics affect the policy agenda

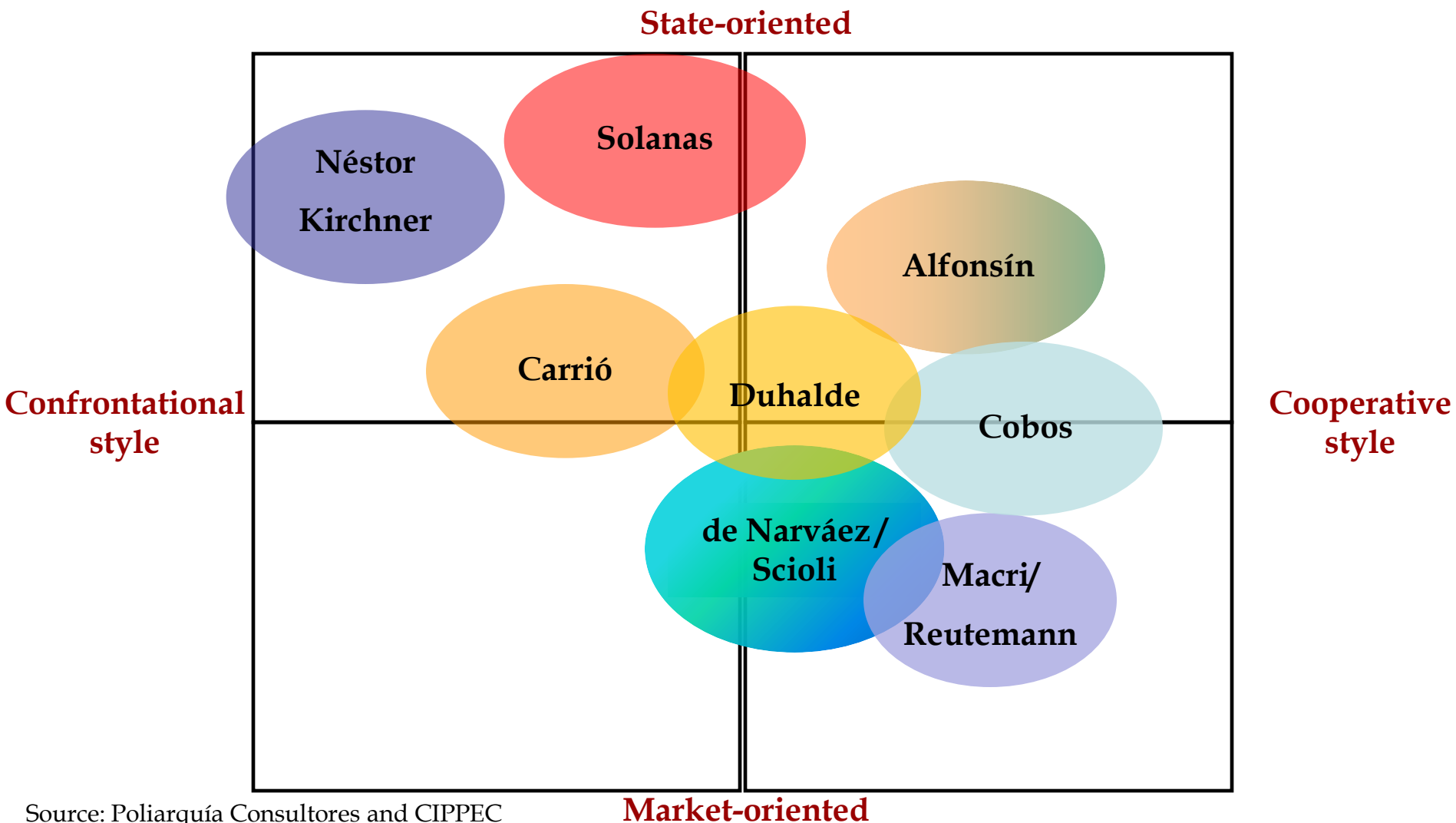
- Stalemate in Congress since December 10th, specially in the Senate
- Unstable, minimal coalitions, defined in a bill-by-bill basis
- Government is willing to raise the stakes against a renewed but fragmented opposition
  - ✓ No willingness to promote political dialogue: paralysis and legislative deadlock
- 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



## The candidates' political compass



## 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”**



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