

President Cristina Kirchner of Argentina was re-elected with nearly 54%

What's next for ARGENTINA?

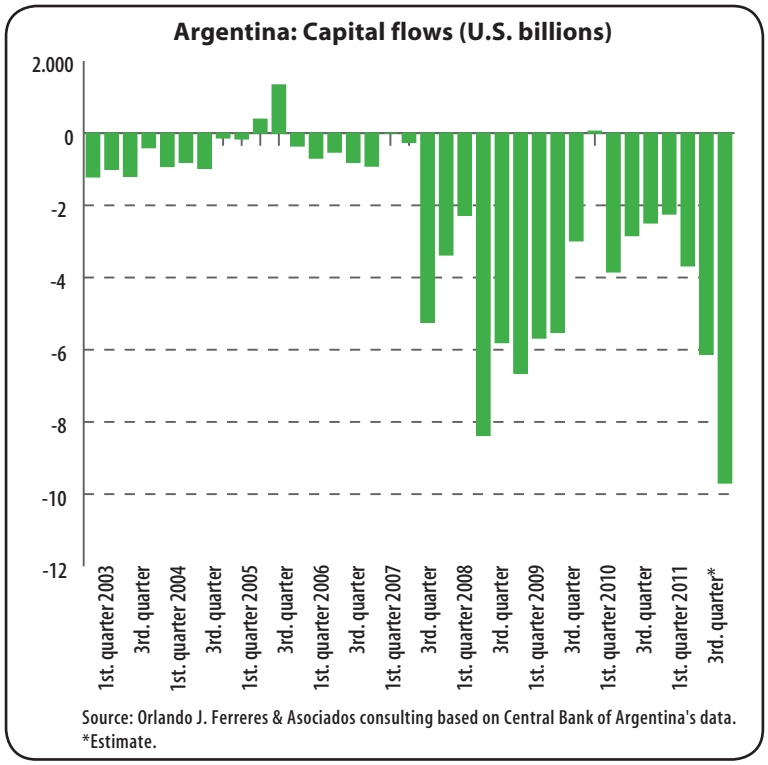
Marcia Carmo, Buenos Aires

Ten years after the political, economic, and social crisis of December 2001, the Economic Commission for Latin America and the Caribbean (ECLAC) says that Argentina is registering the highest rate of economic growth in South America, 8%.

According to official figures Argentina has averaged annual growth of 7.5% for almost eight consecutive years. The expansion began in 2003, when Nestor Kirchner became president (2003-2007). After a fall in 2009, the economy resumed growth in the last two years. For 2012 the government expects 5% growth. "We will continue growing at Chinese rates," said President Cristina Kirchner, who was re-elected in October with 54% of the vote. But at the same time many Argentinians were

Photo: Télam / ABr.

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rushing to buy dollars — something that tends to happen when questions arise about the government's ability to solve problems. Kirchner knocked out the opposition at the polls but has a new enemy: distrust.

Escape

Capital flight intensified in January: Between January and June, purchases of foreign exchange totaled US$9.8 billion, almost as much as in all of 2010 (US$11.4 billion). From August to October, the capital outflow was an estimated US$10 billion, according to economist Fausto Sportono of Ferreres e Associados consulting, so for the whole year, capital flight would be US$25 billion — similar to 2008, the year when the international crisis broke out and farmers launched large protests against the Argentine government. However, Sportono says, "Today is still a situation that the government can manage. Argentina has problems, but it's not in a crisis."

After the election the president enforced tighter control of foreign currency sales to contain the rush for the dollar and replenish reserves. Central bank figures show that international reserves declined from US$52 billion in December 2010 to US$46 billion in November 2011. *Perfil*, a newspaper critical of government, wrote "The government is studying pesification as a last resort against capital flight"— that is, turning bank deposits denominated in U.S. dollars into the local currency (pesos).

For those who watched the 2001 crisis closely, the situation is becoming alarming, although Argentina's fundamentals today are infinitely more solid. Today's trade surplus

is 30% higher than in 2001, and central bank reserves are at least three times higher. But in the first week of November, just after the rush for dollars, deposits in U.S. dollars fell by US$652 million (about 4% of total deposits) to US$14.1 billion.

Tranquility — 'false calm', they say here — came in the third week of November, after the government allowed the resumption of operations in dollars for the purchase of property. But it continued to prevent multinationals from transferring dollars to overseas operations. By late November the dollar was gone from the headlines, though not from the heads of Argentinians. Economist Marina dal Poggetto, Estúdio Bein e Associados consultancy, commented, "We should learn from you Brazilians: have clear rules to generate confidence. But there have been so many scares throughout our history that we learn from childhood to save and think in dollars."

Distrust

Suspicion, dal Poggetto noted, was what made the Argentinians close



Argentinean savers protest against freezing of bank deposits late in 2001 outside Galicia bank headquarters.

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U.S. dollar accounts and banking applications to seek protection elsewhere. Their savings are in bank vaults, foreign banks, or hidden away in corners. According to the U.S. Federal Reserve, in 2006 Argentinians held US$50 billion in cash outside the financial system. The economist Juan Llach wrote: "Since World War II, the economy has been in constant instability with inflation and successive devaluations, which has undermined confidence in the Argentine peso and consolidated the love of Argentinians for the green back (dollar)."

Clearly one of Kirchner's main challenges in her new term is to bring back public confidence. That will only happen, said former central bank governor and member of the opposition Alfonso Prat-Gay, "when the government acknowledges that inflation is high and that the figures have been manipulated. Economic growth alone will not be enough."

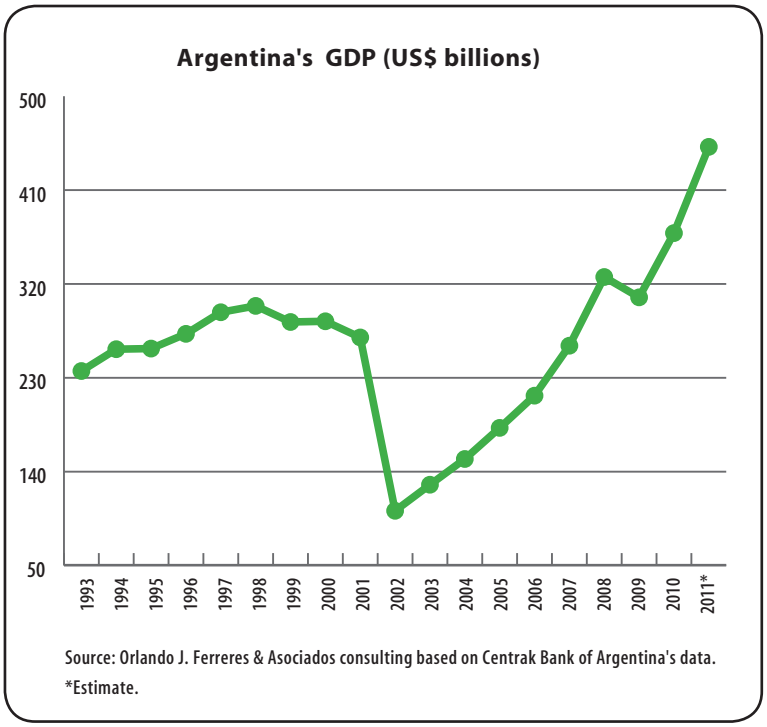
Central Bank of Argentina's international reserves

(US$ billions)	
Nov. 2003	13.4
Nov. 2004	18.8
Nov. 2005	26.5
Nov. 2006	30.3
Nov. 2007	44.8
Nov. 2008	46.0
Nov. 2009	47.7
Nov. 2010	51.8
Nov. 2011	46.5

Source: Central Bank of Argentina.

Photo: Barcex / Wikipedia.

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Source: Orlando J. Ferreres & Asociados consulting based on Centrak Bank of Argentina's data.
*Estimate.

Since 2007, Argentina has not known precisely what actual inflation is. In calculating inflation the National Institute of Statistics and Prices defers to government. This fall it announced that 12-month inflation (October 2010 to September 2011) was 9.7%. For the same period private consultancies reported inflation of 23.1%. Unlike the national figures, the consultants take into account inflation as measured by provincial governments. Opposition lawmakers disseminated those figures on television while the government fined the consultants who performed the calculations. Since then, the task has fallen to the legislators, who cannot be fined.

Argentina's growth is linked to sales of commodities (especially soybeans to the Chinese market), consumption, and the health of the economies of Brazil and China, Argentina's main trading partners. Economist Jorge Vasconcelos of the Institute for the Study of Argentina's and Latin America's Reality said that "almost 50% of total Argentine exports are summarized in two words: Brazil and soybeans." Brazil is the destination for more than 40% of Argentine industrial exports — vehicles lead the list.

Economist Marcelo Elizondo, Desenvolvimento de Negócios Internacionais consulting, said that in recent times Argentina has had "a growing dependence on Brazil." In 2005, Argentina exported 47% of its vehicle production to Mercosur, 20% to NAFTA, and 8.5% to the European Union (EU) and other markets. In 2010, 80% went to Mercosur (mainly Brazil), 5.8% to NAFTA, and

4.9% to the EU. Elizondo commented, "Argentina now has infinitely better fundamentals than in 2001, but this dependence on Brazil is worrisome. Argentina needs to ... expand and diversify its exports, for example, by trying to increase exports to Mexico."

Dependency

Brazil-Argentina trade grew over 200% between 2003 and 2011, according to the Brazilian Ministry of Development, Industry and Trade (MDIC). Total exports and imports between the two countries were US$9.2 billion in 2003 and US$32.9 billion in 2010;in the first 10 months of 2011, compared to the same period in 2010, trade increased 24%, to US$32.4 billion.

The problem for Argentina is a continuing trade deficit with Brazil, recorded almost every year since 2004. To try to put a brake on it, Argentina has turned to unpredictability. According to officials in the Brazilian Embassy in Buenos Aires, Brazilian businesspeople complain about "non-automatic licensing." And Brazil exported sandals to Argentina in the summer, but they did not arrive until winter.

In public President Kirchner often points up the fundamental importance of Argentina's relationship with Brazil, the "giant of South America." However, late in November, as Argentinians renewed their fervor for the dollar, she signaled that she wants to address flaws in the government's current economic model. In a speech to businesspeople, for the first time in months she mentioned inflation: "Do not ask for more devaluation of the peso [to boost exports] because you know what can happen to the dollar and inflation." Kirchner said that it is time to resolve key issues: investment, inflation, and subsidies.

Change

It was during Nestor Kirchner's administration that inflation figures began to be questioned and subsidies to privatized utilities expanded. For nearly eight years subsidies have frozen the prices of water, electricity, gas, and even subway and bus tickets. But even before the second inauguration on December 10, the president had begun to disarm this public spending time bomb. Residents of well-off suburbs of Buenos Aires no longer receive utility discounts. A debate has started whether by increasing utility rates the end of subsidies will fuel inflation.

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Increasing inflation prevents a decline in poverty indicators, according to the Social Debt Observatory of the Catholic University of Argentina. The drop in the poverty indicator since 2001 was one reason Kirchner was re-elected, said sociologist Ernesto Krtiz, Sel Consultants: "Despite inflation, Argentine's lives have improved in the past eight years. We went from a poverty rate of 54% during the 2001 crisis to 25% in 2010. Unemployment fell from 25% to 7%. And three and

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Buenos Aires city's slum.

Population below the poverty line and extreme poverty (% of total)

	2006	2007	2008	2009	2010
Poor	32.2	25.9	28.2	29.0	25.6
Indigent	12.1	7.4	9.7	10.2	9.3

Source: National Institute of Statistics and Prices.

a half million jobs were created in the formal market. The problem is that the poverty rate of 20% of the population does not yield."

Argentinians expectations are also now higher than in the past. The question is how the government will manage the problems arising from the economic boom, such as the race between prices and wages in a country where unions are strong.

Another question: When will the government pay its US$7 billion debt to the Paris Club and leave the 2002 default behind? The president already has "a landslide re-election," said a senior government source. Now she has to manage the failures of Argentina's economic model without rekindling its people's passion for the U.S. dollar.

Photo: Aleposta / Wikipedia.