



Can Macri Deliver on Macro Reforms?

Monica de Bolle discusses the center-right victory in Argentina's presidential elections and what it means for the country's economic reform prospects as well as the region.

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Pedro da Costa: Hi, I'm Pedro da Costa, Editorial Fellow here at the Peterson Institute for International Economics and I'm joined by Monica de Bolle and we're here to talk about the results of the Argentine election which surprised some people. Tell us about that.

Monica de Bolle: It did. I think two months ago, if we went two months and thought, you know, that this could happen, a complete change in government, the end of Kirchnerism in Argentina, I think we would have thought, "No. This is not going to happen." And yet it did.

Pedro da Costa: And as you said, it's the end of long era of you know, a couple that has been ruling the country and that has, in a sense, defined the ideological divide in Latin America between kind of more left-leaning interventionist governments and less so, and Argentina seems to be moving a little bit to the right.

How much of a mandate does the new president have to implement any kind of reforms and what reforms do you think will be on his agenda?

Monica de Bolle: Well, it was a very, very close election. So, you know, the two candidates were apart by only three percentage points or so. So he won by a very, very narrow margin. In a sense, this election sort of brings back to mind the Brazilian elections of last year because it was the same kind of phenomenon taking place, you know, the country's split in half – half the country voting for Scioli who was Cristina Kirchner's candidate; the other half voting for Macri.

So, it kind of echoes that same dynamic that we had in Brazil except that in Brazil, President Dilma Rousseff won a second term in office. So in a way, it is going to be very difficult for him especially since Mauricio Macri is proposing a number of reforms and a complete turnaround, a complete change with respect to Kirchner's economic policies.

Pedro da Costa: So, what are some of those things?

Monica de Bolle: So, things like fixing the fiscal accounts, which are completely out of control. Argentina has a deficit of about 7 percent of GDP. So that needs to be turned around.

The Central Bank currently is printing money to finance the deficit. So, the Central Bank needs to have a different mandate and go back to fighting inflation which nobody knows what it is in Argentina given that there's a complete lack of transparency regarding economic data which is just not published or not credibly published.

Pedro da Costa: Do you think that's something he can address because that's been a major concern for the global markets, right?

Monica de Bolle: The first thing he said he's going to do is completely change the Central Bank, put new people in and at the same time, just reform the National Statistics Office so that economic

statistics can actually be published and people can know what's going on in the economy.

Pedro da Costa: And that he can accomplish with his own executive authority presumably?

Monica de Bolle: Absolutely, that he doesn't need Congress for.

He's also proposing to lift capital controls which are currently in place in Argentina and that would obviously lead to a very, very large devaluation of the peso especially if he does it in a one-shot type of thing which is what he's proposing to do.

Pedro da Costa: How much of a devaluation would you expect in any kind of potential social impact, if any?

Monica de Bolle: Well, markets seem to be pricing in about a 50 percent devaluation of the peso at least. Of course this has big implications for inflation in Argentina, big implications for how people view the peso vis-à-vis the dollar. We can't forget the fact that Argentina is a very dollarized economy. But people haven't been able to save in dollars as much as they would like because of the capital controls.

So there's kind of a two-way thing here. On the one hand, you'll get the devaluation, which of course people won't be happy about. On the other hand, if you lift capital controls, people will be able to save in dollars once again, which they will be happy about. So there's a kind of a lose-win type situation for Macri.

Pedro da Costa: And so you mentioned the parallels between the Brazilian situation and the Argentine situation. Brazil had an election and it had a year to implement a set of reforms that the government seem to be on board with and it didn't do so with the disastrous results that we've seen. What makes you think that Argentina might go a different path or that there might be kind of hope for his set of reforms?

Monica de Bolle: Well, I think the big thing and the big difference there, and that's where the comparison between the two becomes really interesting, is that in Argentina, the opposition candidate actually won. So this is a candidate who is not responsible for the problems that are currently present in the Argentinian economy. This is now a president, who is proposing to change everything and who, in theory, has the credibility to do so. Whereas in the case of Brazil, the Brazilians reelected a government that had created the problems it is not trying to solve. So that makes the situation all that much more difficult.

Now having said that, Macri of course in Argentina, will face a Peronist congress, so in other words, a congress where he doesn't have the majority and a number of things such as the negotiations with the holdouts in New York, and all the ongoing saga of Argentina's debt restructuring –

Pedro da Costa: Being able to actually come back in capital markets so –

Monica de Bolle: Yeah, and that will need Congress's approval. Whatever deal he strikes with the holdouts will need to go through Congress. So we will see I think some very interesting things happening in Argentina in the months to come.

Pedro da Costa: Interesting. We'll stay tuned and I'm sure we'll be back here chatting more. Thank you so much.

