



Argentina: Bright Spot in Latin America

Monica de Bolle discusses Argentina's recently elected president Mauricio Macri's positive momentum after a recent deal with debt holders.

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Pedro da Costa: Hi, I'm Pedro De Costa, Editorial Fellow here at the Peterson Institute for International Economics. And I'm here with Monica De Bolle. She's a Senior Fellow here. And we're here to talk about Argentina, which is offering a rare sunshine of good news here in Latin America.

Monica de Bolle: Indeed, it's about the only good news we have out of the southern cone at this point.

Pedro da Costa: We have a new president and he's kind of hit the ground running and tried to...

Monica de Bolle: Yeah, and he's been doing it in a very unusual way, because normally what happens is that you get these newly elected governments and they have the political capital. In Argentina's case, not much because he got elected by a rather slim margin. But nonetheless, they use that political capital to put in place measures that are usually very unpopular just to kind of exploit that window of opportunity that normally comes up after an election.

He has turned that on its head and rather than doing the unpopular policies first—and there are a number of them in Argentina given the state of affairs in the economy—he has decided to go the other way and sort of have a positive external agenda. Let's do everything to enhance Argentina's image for the rest of the world.

Pedro da Costa: Because it's been a bad image for many, many years.

Monica de Bolle: Because it's been a very, very bad image.

Pedro da Costa: I started out my career covering the Argentine Default in 2001 and here we are.

Monica de Bolle: There we go. So, the first thing he did was a campaign promise. He lifted the capital controls, and people were expecting the exchange rate to devalue quite sharply. It did devalue sharply, but not as much as people expected. So, there was a huge credibility effect that came with that. Then he started engaging the creditors again and he reopened the negotiations with the holdouts and the whole protracted process that's been dragging on for years and years. And they've just recently reached an agreement with 85% of the holdouts, which was big news in itself.

But one thing that was also news and didn't actually make as much of a splash obviously, because it's not as splashy as the bond holder agreement, was the fact that there have been signs of warming relations between Argentina and the IMF. The IMF has recently changed its internal policies in order to publish a number of internal documents on Argentina. These are documents on informal board discussions on Argentina that took place between 2013 and 2015, when the country was not having the regular surveillance that the Fund does with countries.

So, all the documents have been released. They're publicly available on the request of the authorities. The authorities want this as a way to show that they are transparent, that they are going to be moving toward greater transparency. So, they got a lot of good commendments recently from the Treasury, from Judge Griesa himself in New York. So, it's been a very good beginning of the year for Argentina.

Pedro da Costa: So, how much do you think he'll be able to translate this wave of goodwill, at least externally, into domestic support and economic growth, which ultimately is his agenda? Because we've got a region in particular, Brazil, that's in recession. It's a big trading partner. Will he be able to deliver enough benefits quickly enough that he won't have kind of a domestic backlash against his policy?

Monica de Bolle: Well, that's exactly his challenge, right. Because in Argentina at the moment, the opposition is trying to play him up as a friend of the vulture funds. The recent agreement that was just reached with bond holders needs to pass congress. Not just that. Congress needs to revert two laws that are currently in place and that prevent Argentina from paying its creditors. So, that needs to pass within the next month or so, a little bit over a month actually because it needs to be passed by April 14th, which was the timeline agreed for the payments to be made. So there's a big challenge there.

There are signs that the opposition, the Peronists, or some of the Peronists are actually going to be moving in Macri's direction because some governors of provinces do need to issue bonds externally. So they want to have access to international capital markets; and hence they might move and vote in favor of what Macri has just signed off with the bond holders. But that's something to watch. Apart from that there's all the other measures that need to be done in the country.

Pedro da Costa: And what are some of those?

Monica de Bolle: And one of those is fixing a 6% GDP Primary Deficit, which is largely the result of several subsidies in the energy sector, which he has already done away with some of the subsidies, but there's a long way to go.

Pedro da Costa: But they're a legacy of Kirshenism or the legacy of...?

Monica de Bolle: They're a legacy of Kirshenism, yes. There are a number of other subsidies and price freezes and price controls of various types that he needs to address. And of course all of this is going to impact inflation. Inflation is already high. It's running at about 30% a year, as far as one can tell, because the data in Argentina, the official data, the National Statistical Office is still being rebuilt as we speak.

Pedro da Costa: Hasn't been trusted for several years.

Monica de Bolle: Hasn't been trusted for several years. The Kirshen administration basically destroyed its credibility, so now it's being rebuilt from the ground up. But of course people are feeling already the pinch of high inflation. And on top of that, the economy isn't doing great because of Brazil, because of a number of reasons, including Brazil. And in fact, one of the things the Argentine authorities have been very adamant about saying is, "Look, don't expect the situation in Argentina to improve anytime soon because Brazil is facing this terrible crisis and we don't know when that's going to end."

Pedro da Costa: Yeah. So, they have to manage expectations and it's a long road. But at least it's some positive momentum for a country that's been stuck in a rut for quite a while. Thank you so much, Monica.

Monica de Bolle: Thank you.