

The Year Ahead: Argentina in Economic Intensive Care – by Pablo Bréard

The severe economic stress caused by the COVID-19 global pandemic has exacerbated the systemic ills of Argentina's stagnation and erratic policy framework. Looking ahead, the status quo is no longer an option. Restoring price and currency stability is a top social and economic priority. Although the global health crisis offers a unique opportunity to foster a profound structural transformation, abandoning decades of (geopolitical and economic) isolation and revamping failed experiments in economic policy making will not be an easy task. Argentineans remain battered by ultra-high chronic inflation. The sharp erosion of households' purchasing power has fuelled social discontent and impaired public confidence in the country's leadership and institutions to weather the health and economic crisis. Headline inflation is estimated to escalate to 50% (year over year) in 2021, after closing near 37% in 2020. The government "does not" devalue the local currency; it is inflation the destructive factor of the Argentine Peso. Absent major progress in tackling systemic inflation, the survival of the "Peso as the National currency" might be at risk.

The country's acute macroeconomic hardship, portrayed in a substantial fiscal deficit (11% of GDP), mounting public sector debt (100% of GDP), deep recession, disrupting labour market informality, large-scale disorderly currency depreciation and destructive inflation, has deepened Argentina's structural vulnerabilities and chronic reliance on external financing. Real GDP will contract by 12% in 2020, before staging a modest recovery in 2021. The authorities are negotiating an Extended Fund Facility with the International Monetary (IMF) to refinance its debt (US\$49 billion) and rebuild central bank reserves. In this regard, receiving support from the newly elected government in the United States (USA) is of critical relevance. This crisis is materializing at a time when the USA has challenged the global trading system through defiant unilateralism and escalating geo-political tensions with China, its super-power rival.

A major overhaul of Argentina's isolationist foreign policy is needed. The USA has well-defined (security, trade, financial, migration and corporate) interests in Latin America. Regrettably, Argentina is not a US strategic partner. In fact, Argentina's friendly relations with Venezuela and Cuba will require careful recalibration in order to avoid potential conflict with the USA. Meanwhile, China is increasing its engagement in the South American nation. While major US corporations remain ambivalent regarding equity investments in Argentina, China is boosting its strategic presence in sectors such as financial services, infrastructure development, agriculture commodities and satellite development. Moreover, both central banks have structured a mutually beneficial currency swap arrangement.

The country faces a deep governance crisis ahead of the October 2021 mid-term elections. Argentineans have lost faith in their democratic institutions, particularly in the judiciary's ability to prosecute political and labour union leaders on corruption grounds. The excessive concentration of power in the Presidency – and the widespread use of Executive decrees – undermines the role of Congress in advancing the structural reform agenda. The Fernández-Fernández (FF) administration is perceived – at home and abroad – as an autocratic and divisive regime with little tolerance for political dissent. The FF government is scheduled to remain in power until December 2023. Moreover, Pandemic indicators show a distressed public health status (Global Ranking # 5 in Mortality and #6 in Infection cases).

A comprehensive structural reform of the labour market is urgently needed to transform the "socially exclusive" practice of widespread informality and boost flexible work arrangements in the digital era. However, the combative labour union movement – in defense of its own interests – will resist structural change through disruptive activism during the state of emergency. Under current labour conditions (characterized by intensifying unemployment and under-employment across all age and gender groups), it will be difficult for the people of Argentina to fully embrace the harsh structural reforms and policy changes needed to restore fiscal equilibrium, price stability and economic growth. However, profound systemic (perhaps constitutional) changes to the judiciary, the pension regime, electoral laws, and labour markets will be required in the future to resume a path of sustainable economic growth.

Critical issues to monitor in early 2021 include: 1) US Treasury support to the IMF-backed economic plan; 2) Changes to the currency regime to amend relative price distortions affecting the value of the Peso; 3) Fiscal behaviour during the campaign leading to the October elections; 4) Foreign policy shifts in alignment (or not) with the interests of the Biden-Harris administration in the USA; 5) China's support to boost central bank reserves; 6) Continuous ruling by Executive decree to bypass Congressional scrutiny; and 7) Potential lockdown restrictions at the end of the summer.