

# **High Inflation and Indebtedness: Can Argentina Survive Again?**

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## **Introduction**

Next December (2021), Argentina's citizens will commemorate twenty years of the 2001 default and the economic recession that follow. It will be a sad, uncomfortable, remembrance for two reasons. Firstly, in 2001 Argentina defaulted on a debt of US\$ 132 billion, five presidents took power and resigned in a week, the national currency lost two-third of its value, unemployment reached 25 percent and extreme poverty affected 27 percent of the total population. The default took Argentina to political and economic chaos. Secondly, after 20 years, the country is back to a scenario of high inflation and indebtedness.

This article draws possible scenarios for Argentina's short term future. It debates to what extent the government would be able to sign an agreement with the IMF, reduce inflation and generate employment and economic growth. These objectives must be reached in the context of COVID-19.

From January 2020 until September 2021, Argentina reported 5.215.332 confirmed cases of COVID-19 with 112.962 deaths. As of 19 September 2021, a total of 43.696.315 vaccine doses have been administered (WHO, 2021).

On Sunday 12 September, there were primary elections. The government candidates lost and the power struggle that followed paralyzed the country.

This article analyzes whether Argentina can avoid another debt crisis and stabilize inflation.

## **Increased Indebtedness and High Inflation in Argentina**

According to the National Institute for Statistics and Census, the external debt for the first trimester of 2021 was USD 269.508 million (INDEC, 2021) and inflation reached almost 30 percent. However, the Consumer Price Index for last July almost reached 60 percent. According to the BBVA Research, the inflation rate for this year could reach 50 percent (BBVA Research, 2021). This increase is due to a period of economic reactivation.

The Argentina peso continues to be devaluated. Nowadays you need 172 pesos to buy 1 dollar while a year ago you needed 59 pesos.

Due to COVID-19 and a long confinement, there was a sharp decline in employment. 1.059.000 jobs were lost during 2020. Unemployment reached 11 per cent. The informal sector (mainly workers in hotels, restaurants and domestic employees) lost 633.000 jobs. Although, recently, there has been an increase in the level of employment (currently there are 19 million people employed which is 1.9 million more than in the first half of 2020), income declined on average against inflation. According to the National Institute of

Statistics and Census, as of June 2021, the year-on-year variation in the general level of wages was 43 percent, against inflation of 50 percent.

Fundación Mediterranean and its think tank IERAL argues that the mass of fixed income of families would register in November a 1.5 percent decrease in relation with the second half of 2020: "the amount of fixed income of families in the first half of this year was 7 percent below that of the same period of 2009 and is also 18 percent lower than in 2013" (Vasconcelos, 2021).

The government made significant efforts to fight against tax evasion which helped to reduce the fiscal deficit. According to Martín Guzmán, Minister of Economy of Argentina, the government expects an annual fiscal deficit between 4 and 4.5 percent of the current GDP (2021) (Burgueño, 2021).

## Challenges Ahead of an Agreement with the IMF

An agreement with the IMF is a key. If there is no agreement, Argentina will continue to print out money, pushing inflation up. In 2020, the Central Bank print out 1.200 million pesos. The government hired companies in Brazil and Spain to print out *pesos* since the mint in Argentina was working 24 hours a day.

It is expected that the agreement, which will restructure the payments of the debt, will be reached after the November legislative elections or early next year. The political unrest generated by the primary elections could jeopardize the agreement.

Argentina				
Main Indicators	1990	2000	2010	2020
GDP (current US\$) (billions)	141.35	284.2	423.63	383.07
GDP growth (annual %)	-2.5	-0.8	10.1	-9.9
Inflation, GDP deflator (annual %)	2,078.30	1.0	20.9	39.8
Agriculture, forestry, and fishing, value added (% of GDP)	8	5	7	7
Industry (including construction), value added (% of GDP)	36	26	25	22
Exports of goods and services (% of GDP)	10	11	19	17
Imports of goods and services (% of GDP)	5	12	16	14
Gross capital formation (% of GDP)	14	18	18	14
Revenue, excluding grants (% of GDP)	10.4	14.2	21.2	18.8
Net lending (+) / net borrowing (-) (% of GDP)	-0.1	-2.8	..	-4

Source: World Bank (World Development Indicators database)

[https://databank.worldbank.org/views/reports/reportwidget.aspx?Report\\_Name=CountryProfile&Id=b450fd57&tbar=y&dd=y&inf=n&zm=n&country=ARG](https://databank.worldbank.org/views/reports/reportwidget.aspx?Report_Name=CountryProfile&Id=b450fd57&tbar=y&dd=y&inf=n&zm=n&country=ARG)

## **The Impact of the 12 September Primary Elections**

On Sunday 12 September, more than 34 million citizens had the opportunity to participate in primary elections, PASO (*Primarias Abiertas Simultaneas y Obligatorias* - Simultaneous and Compulsory Open Primaries) to define the lists of deputies and senators for the November elections.

The incoming legislative elections are for half of the Chamber of Deputies and one-third of the Senate. The government candidates lost in 17 provinces, the most significant defeat was the Buenos Aires province which is the most important district because of the number of inhabitants (16,480,000 million from 45,376,763 million inhabitants in Argentina in 2021) (Banco Mundial, 2021).

If this trend persists in the November elections (2021), the government will have to negotiate with opposition parties to pass its legislation.

Looking at democratic strength, the result of the primary elections is quite positive: there is political opposition. Citizens can punish governments when they do not deliver what they promised.

However, the day after the primary elections, a political battle began within the government. A bit of history can clarify the political struggle. The government is in the hands of different groups of the old Peronist party, created in the 1940s. Peronism includes liberals, conservatives, left and right, democrats and not-so-democrats, ultra-conservative Catholics, and followers of the left-wing side of the church, the Liberation Theology. It is an amorphous political formation which has been majoritarian in politics since the forties with short exceptions.

The current president, Alberto Fernandez, was selected by Cristina Fernandez de Kirchner to be candidate in the last presidential elections held in October 2019. Cristina Fernández, having the possibility of being a candidate to occupy the presidency for the third time, decided to run for vice president, and proposed Alberto Fernández as a candidate for president.

More history can help to explain the ongoing political confrontation. Before winning the presidency, Alberto Fernandez was Chief of Staff during Nestor Kirchner presidency between 2003 and 2007. He continued in the post when Cristina Fernandez de Kirchner won the 2007 presidential elections. However, he resigned after nine months due to disagreements with the president. Fernandez became very critical of Cristina's administration. Thus, it was a big surprise when Cristina selected him to join her for the presidential elections in 2019.

President Alberto Fernandez had only 99 days in the job when COVID-19 struck. Like in the rest of the world, his government was not prepared for the pandemic. The electoral

defeat is the product of the mismanagement of the pandemic but, most importantly, the economy.

After the defeat in the primary elections, the relationship between the president and his vice-president broke down provoking a deep political instability. Political economy is the key issue on the fight. The vice-president would like to see Martin Guzman, Economics minister, out of the cabinet. Guzman is trying to achieve an agreement with the IMF on the US\$ 45.000 million external debt. In an open letter, the vice president argues that she talked to the President many times before the electoral defeat, about the need to change fiscal policy, to lower inflation and reduce unemployment. She goes on to argue that her plights were ignored.

## **Where Do We Go from Here?**

The result of the primaries deepened the differences within the government. This can jeopardize the economy and the agreement with the IMF. Paradoxically, the primary elections, which do not have an immediate impact, provoked an open confrontation that debilitated the government more than the elections result.

21 years ago, the country witnessed another fight in the executive which ended with the resignation of Carlos Alvarez, the vice president of Fernando de la Rúa. Those disagreements between de la Rúa and Alvarez destabilized a weak government. Cornered by his incapacity to improve the economy, president de la Rúa resigned which marked the beginning of the 2001 crisis and the external debt default.

In the last few days, Graciela Fernandez Meijide, a member of de la Rúa government, recalled that moment and argued that the confrontation between the president and the vice-president was a terrible mistake that kill a weak government. Almost 20 years later, the country is facing a similar situation. The confrontation within the government is about personalities and power. It increases due to the ideological diversity (or confusion) that exists within Peronism.

It seems that Alberto Fernandez lost the confrontation. Cristina Fernández de Kirchner, won. Most of the changes in the Cabinet were according to what she published in Twitter.

This open confrontation has undermined the government. Moreover, the new members of the Cabinet are controversial. For instance, the new Chief of Staff has been criticized by the feminist movement and the left because, while governor of a small province in the north, he did not allow a 11-year-old girl to have an abortion after being raped.

Adding to the economic difficulties -high indebtedness, high inflation, high fiscal deficit, poverty, and economic and social inequalities- politicians have been unable to offer new ideas and to deepen democracy. They only deepen political polarization and poverty.

In the short term, the government must control inflation, reduce the fiscal deficit, and achieve an agreement with the IMF. They must resolve internal disputes and improve the economic and social fragile situation that the country is facing.

The last few days told a different story: Alberto Fernandez was openly and aggressively cornered by the vice President, airing the internal conflicts of a weak government.

Unfortunately, 20 years on after the deepest economic and social crisis of this democratic era, politicians do not seem to be up for the job. On the other hand, citizens understood that their vote can punish ineffective leaders. Only the short-term future will tell whether politicians, after fighting, can start to do their job.

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