

*Is Argentina's growth sustainable?
if so, who gets the credit?*

Federico Sturzenegger

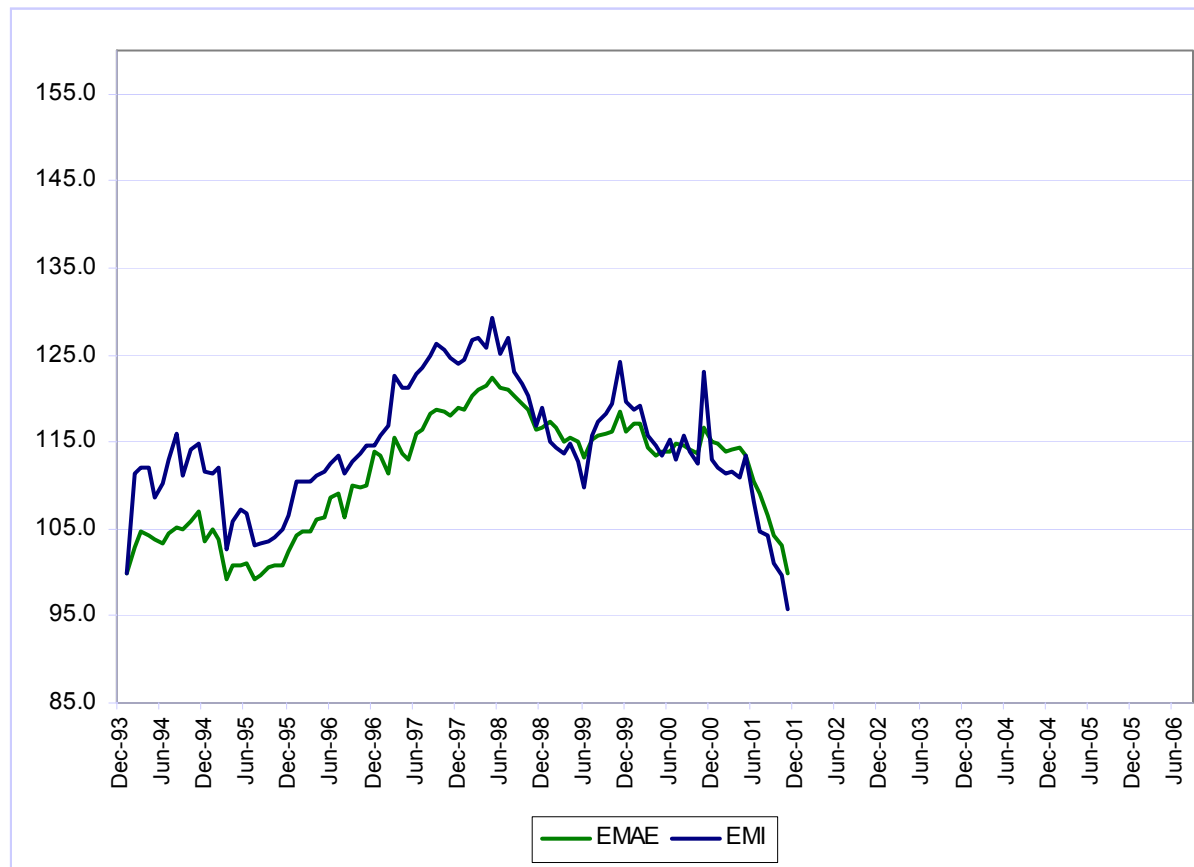
Harvard University

IMF, November 17, 2006

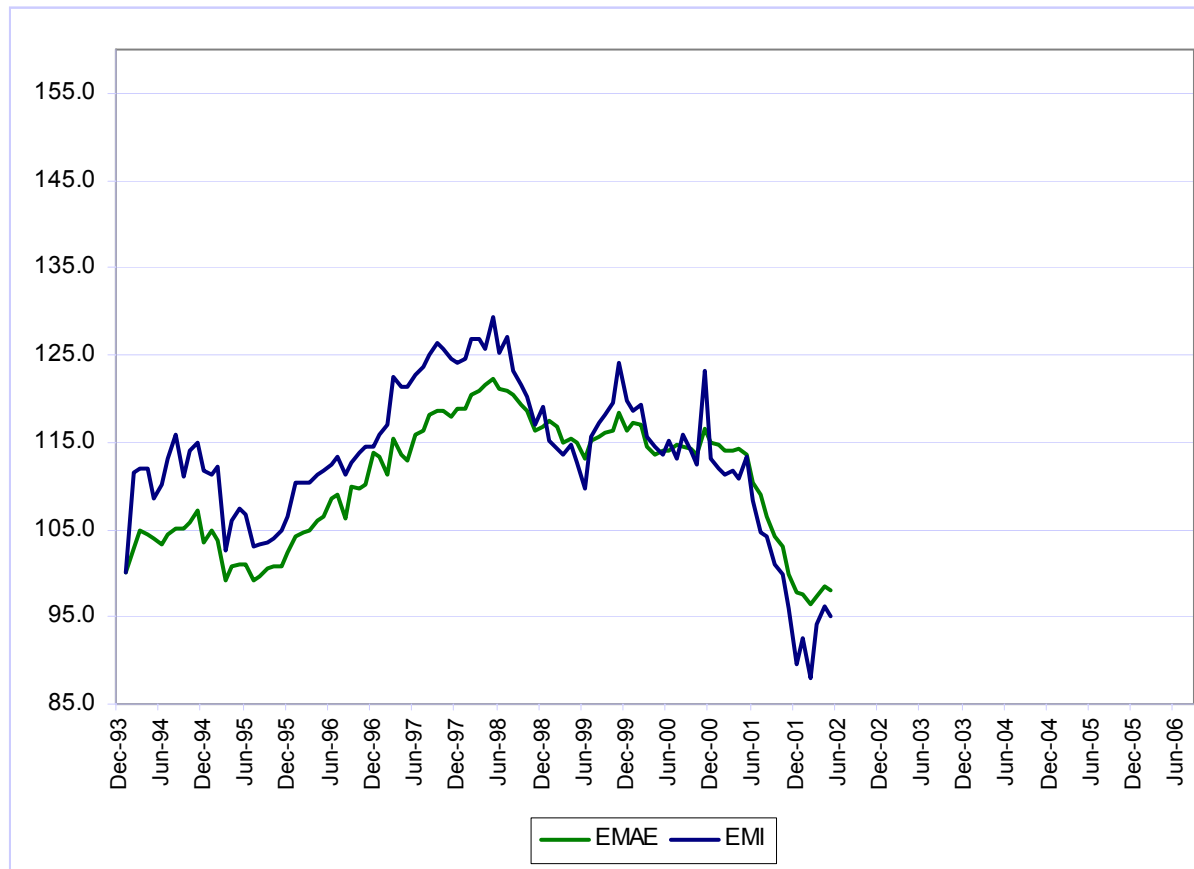
In a nutshell...

- Certainly sustainable, though probably at somewhat lower rates
- The government takes most of the credit because it has sustained unprecedented good macro policies
- As a result Argentina will be able to make the transition to a lower though still high rate without a new macro crises
- I see the current model mostly as building on but improving on the 90s
- There are problems of course, but none major

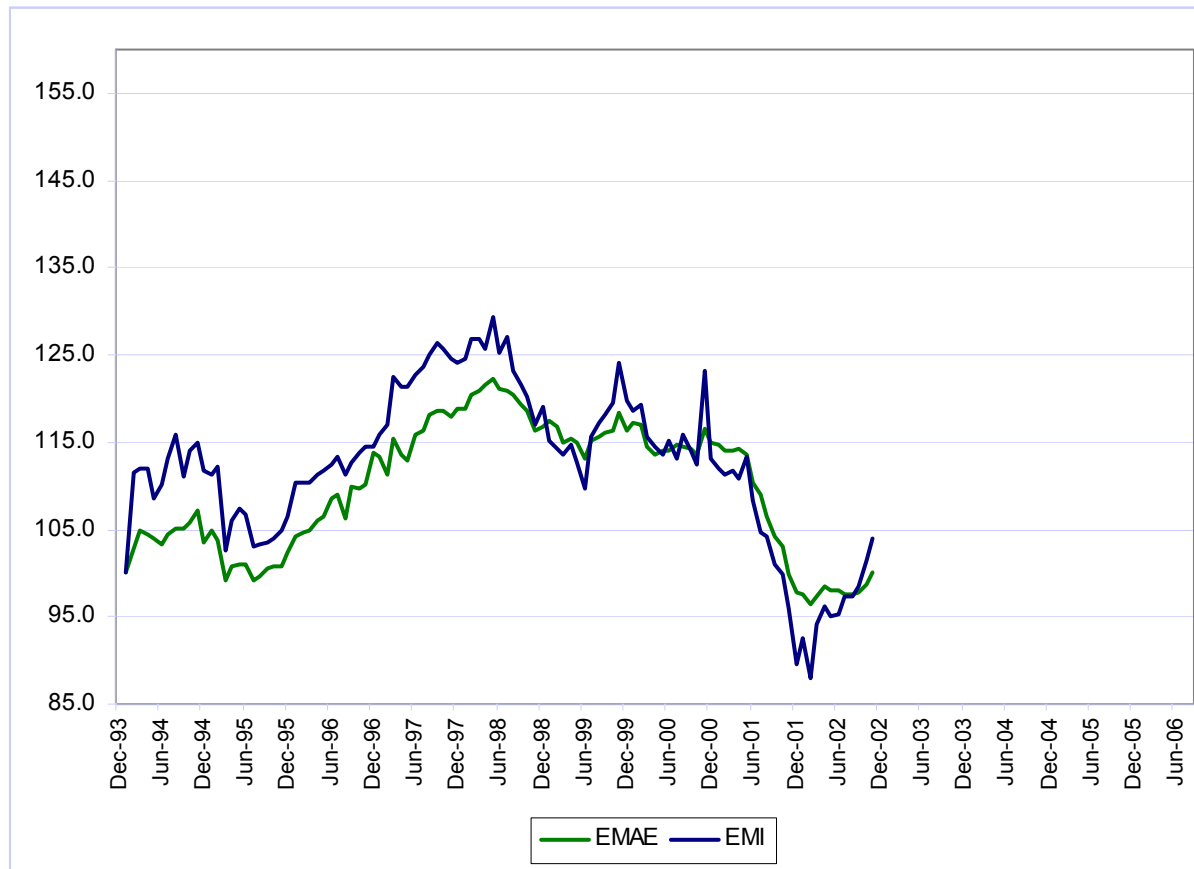
So this is what happened...



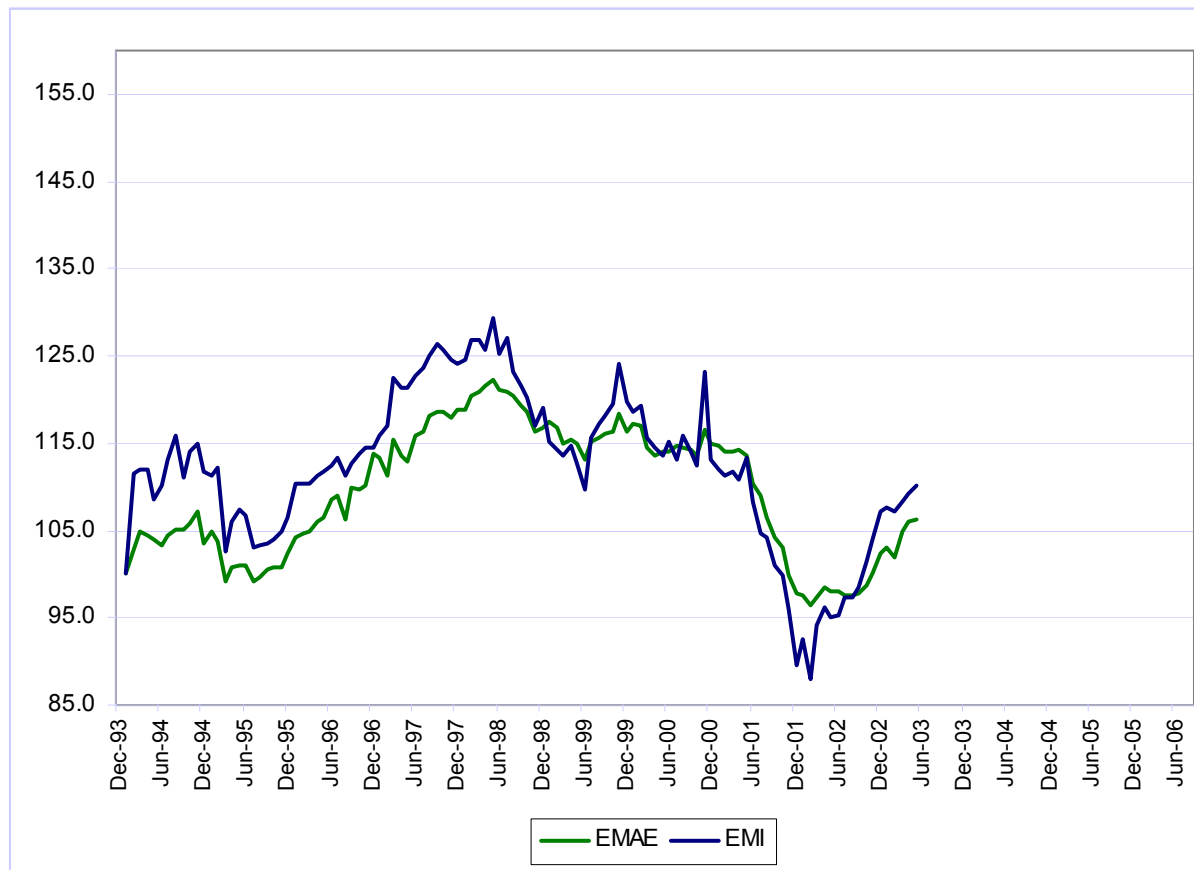
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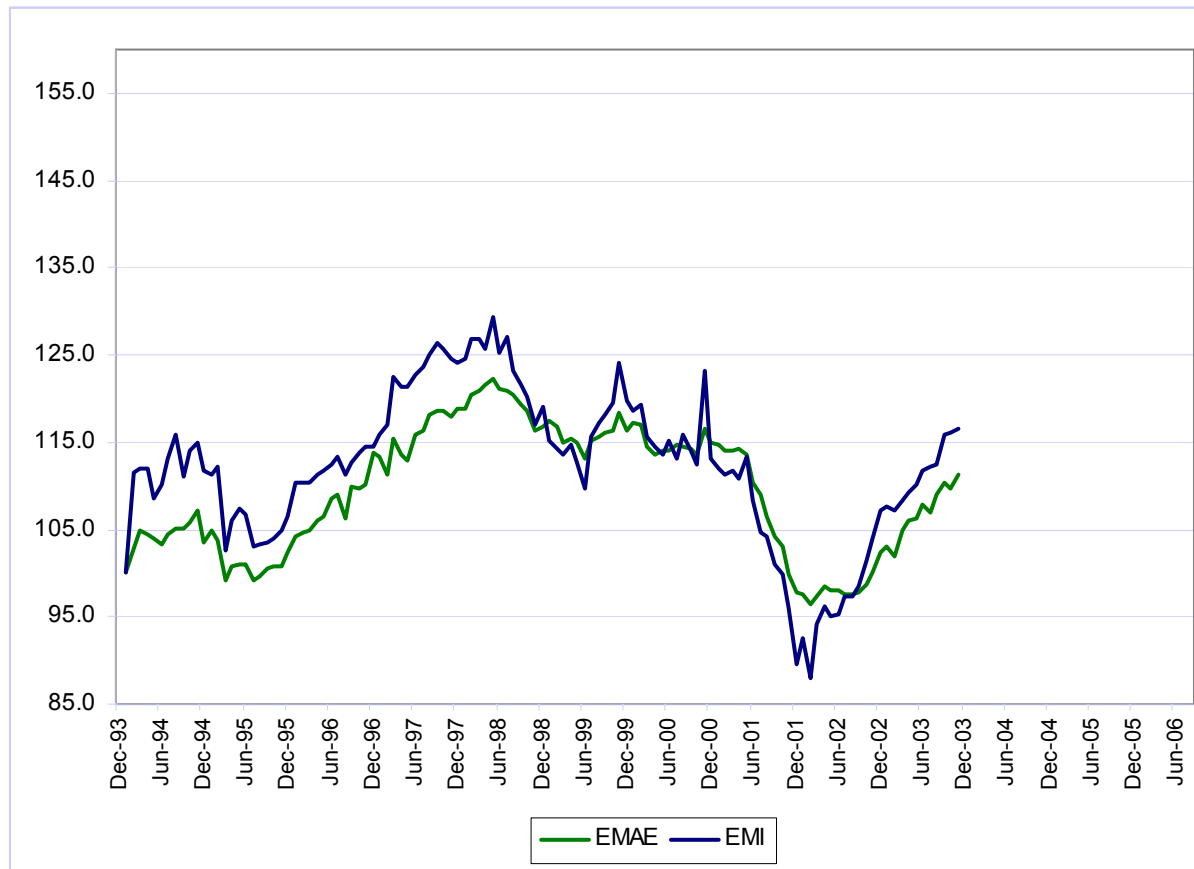
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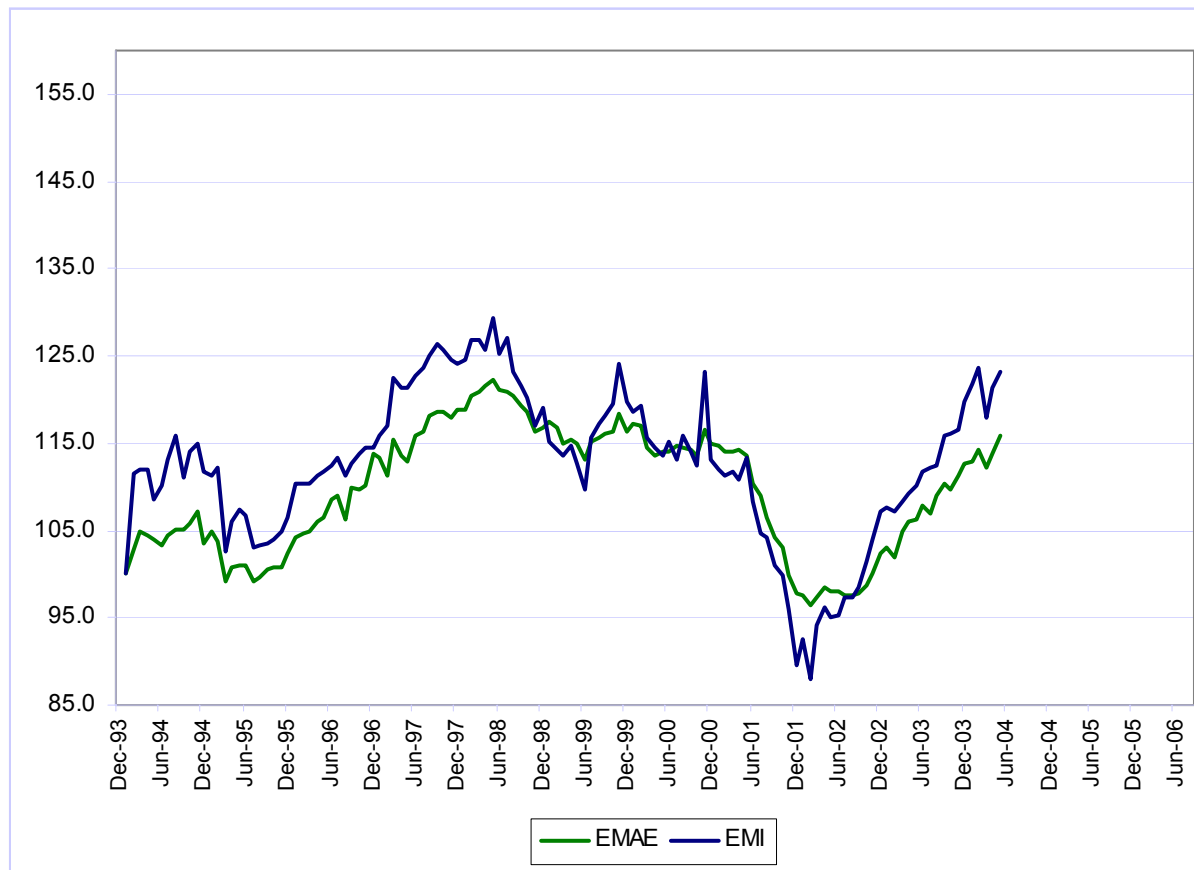
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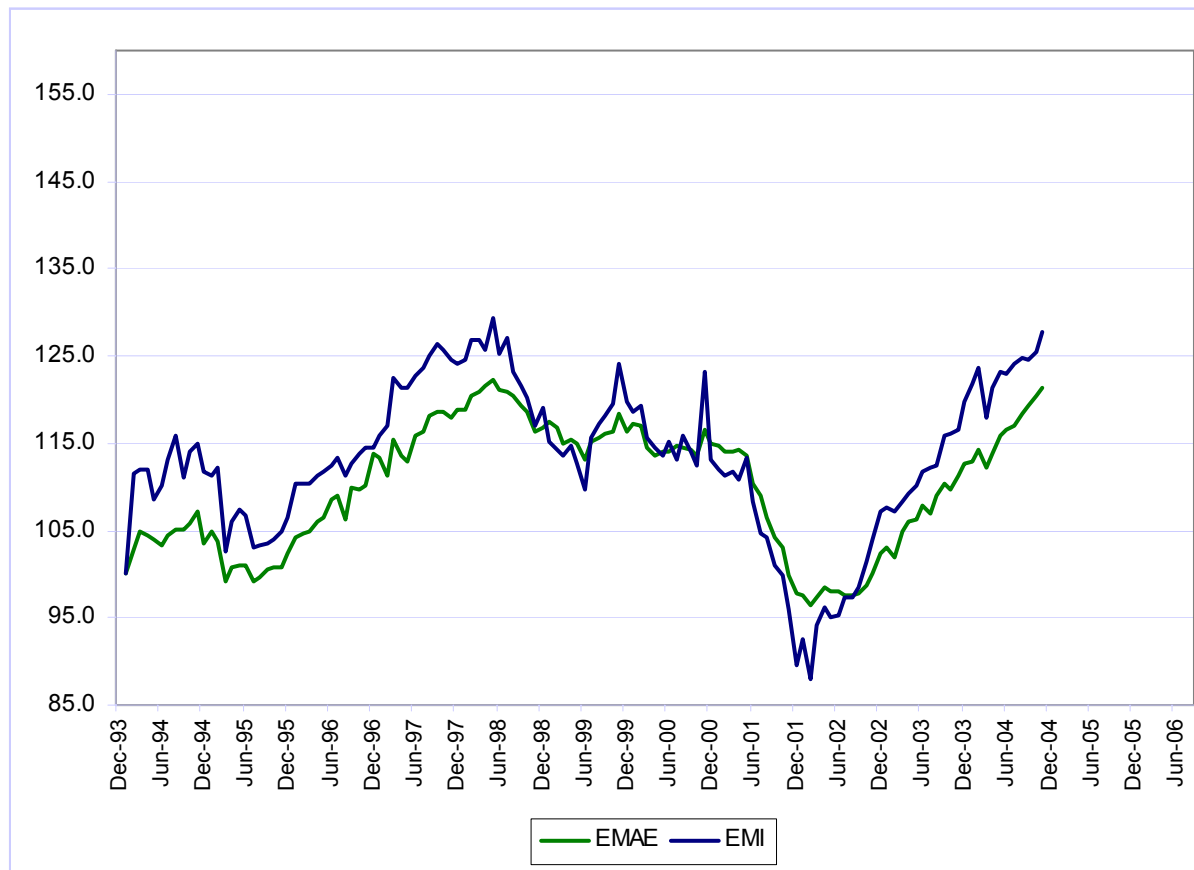
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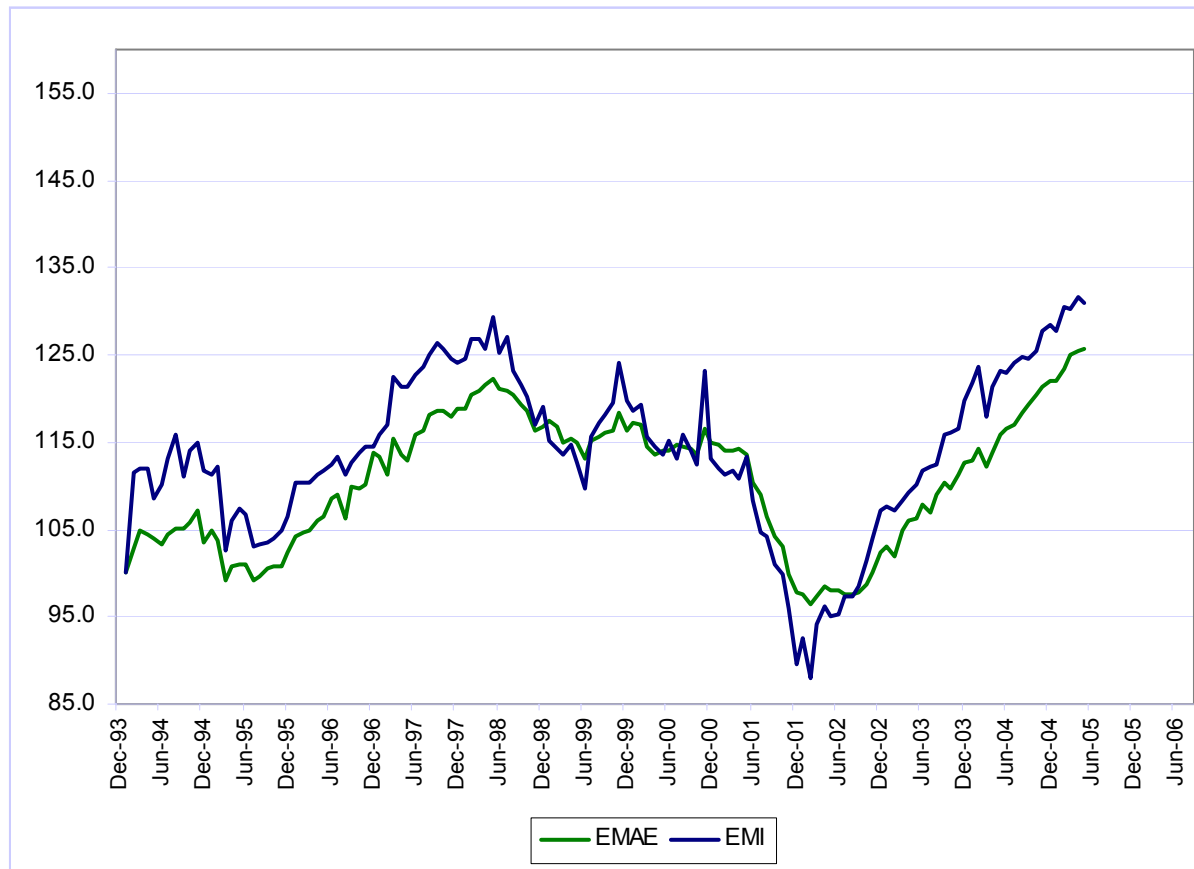
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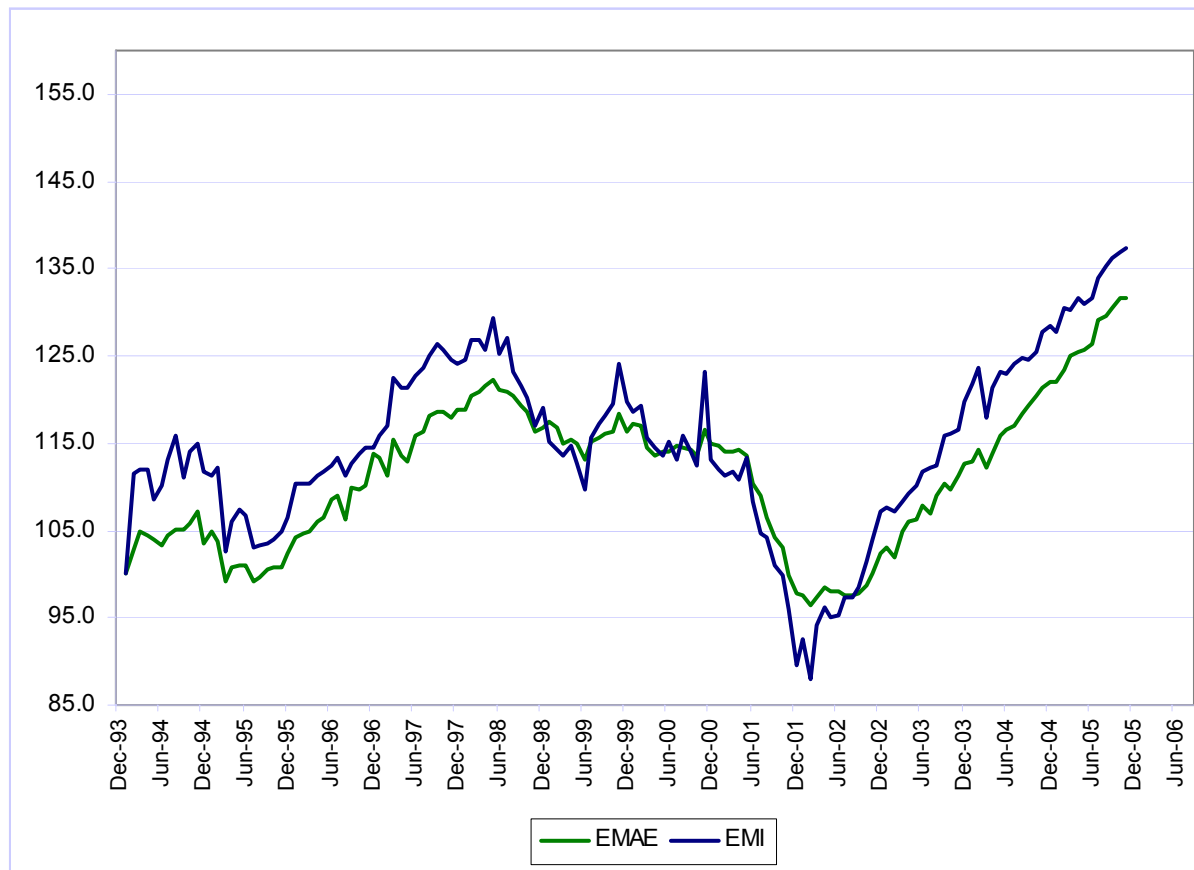
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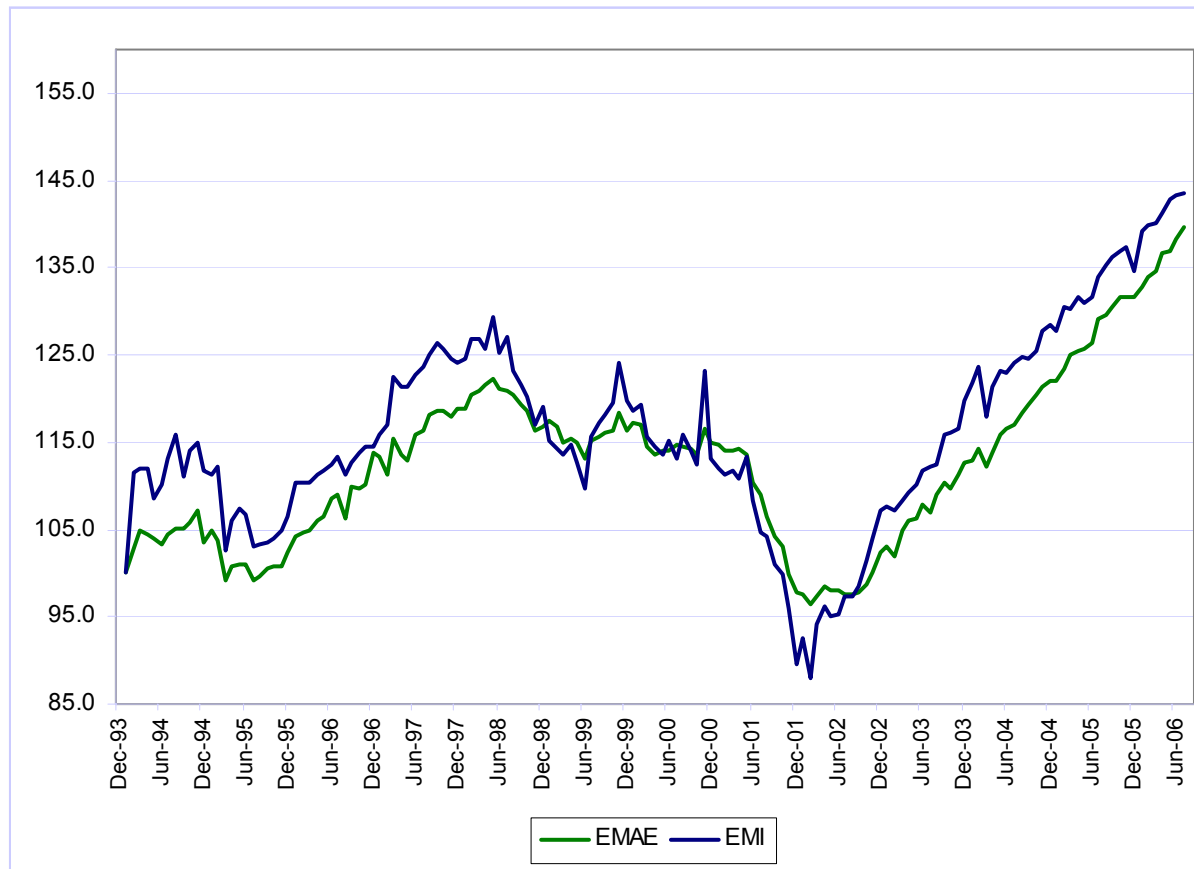
So this is what happened...



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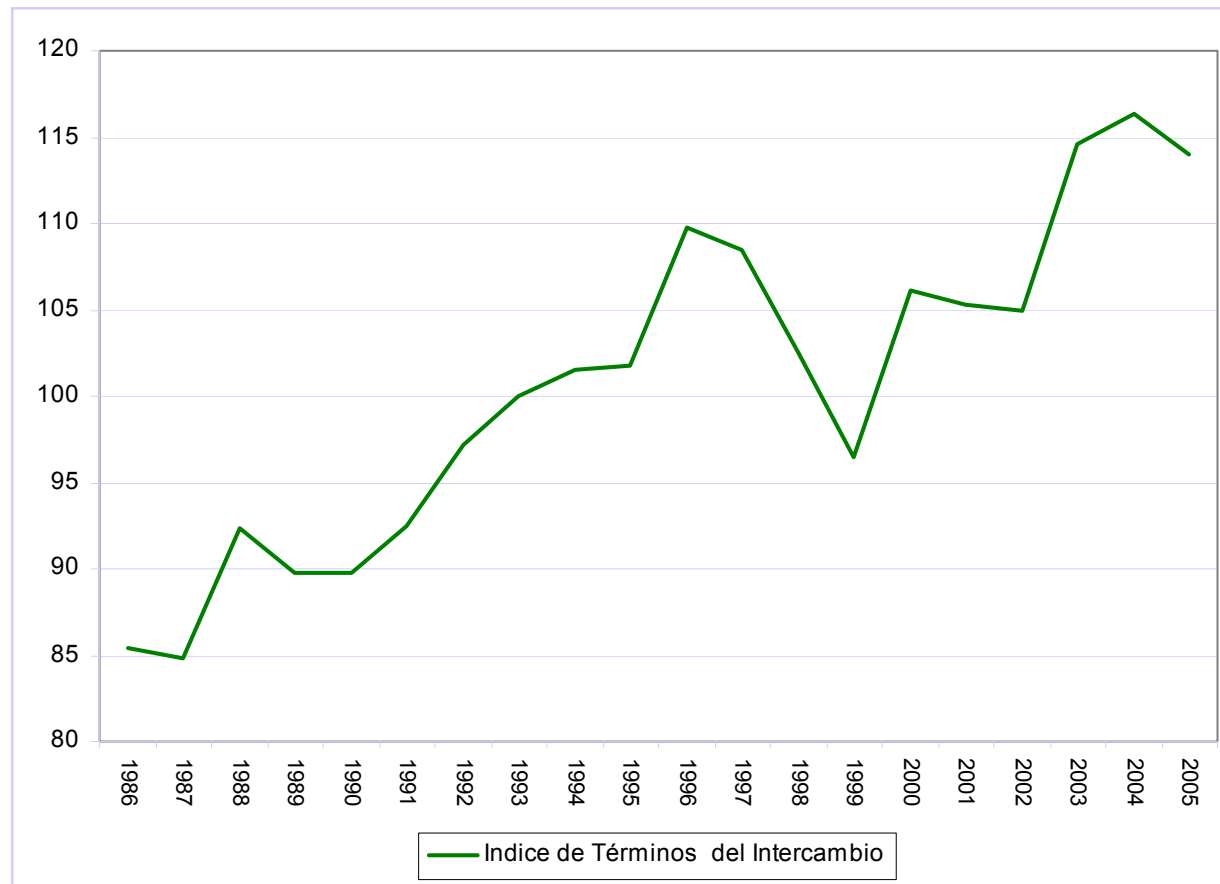
So this is what happened...



So things have turned better than expected, so who is to praise?

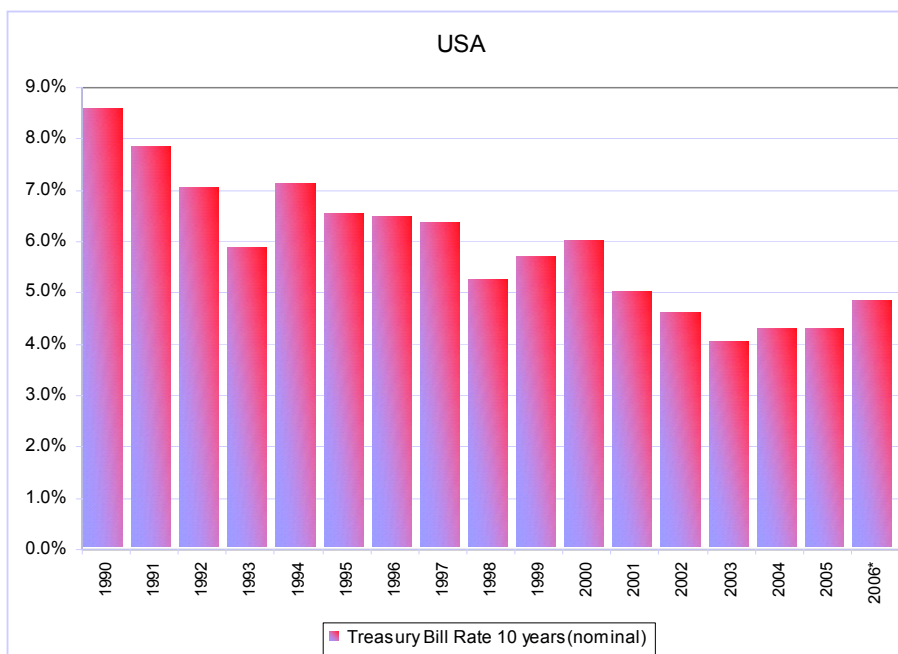
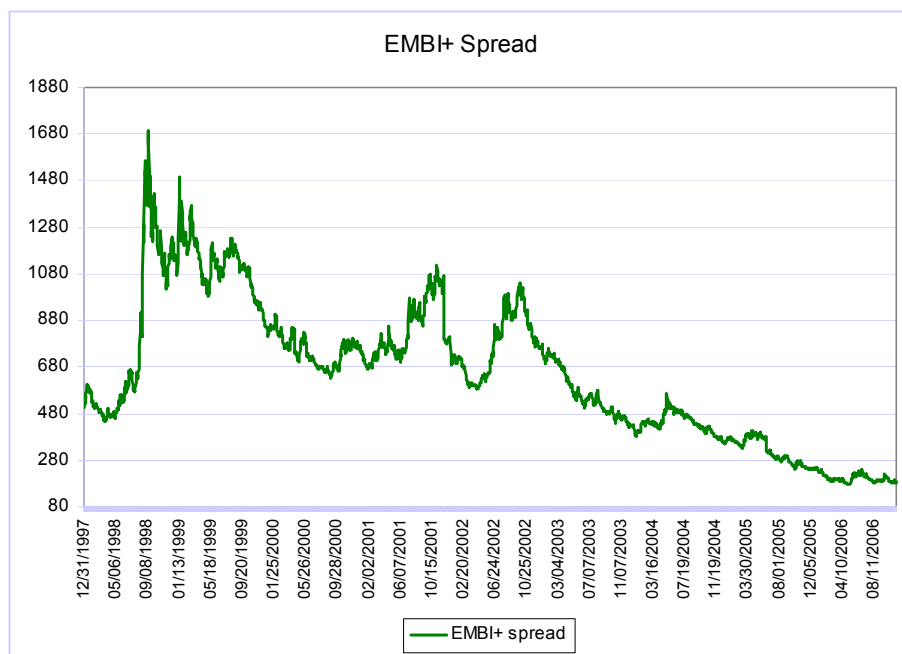
- The 90s take a lot of credit. The 2001/2002 crisis will be an anecdote
- In the period 1990-2006 output has grown: 81% (53% per capita)
- Since end 2001 output growth has been: 36% (31% per capita)
- Two candidates:
 - External conditions
 - Domestic policy
- I believe the evidence is strong in pointing to the second

Terms of trade have improved, but not that much



And liquidity conditions are better

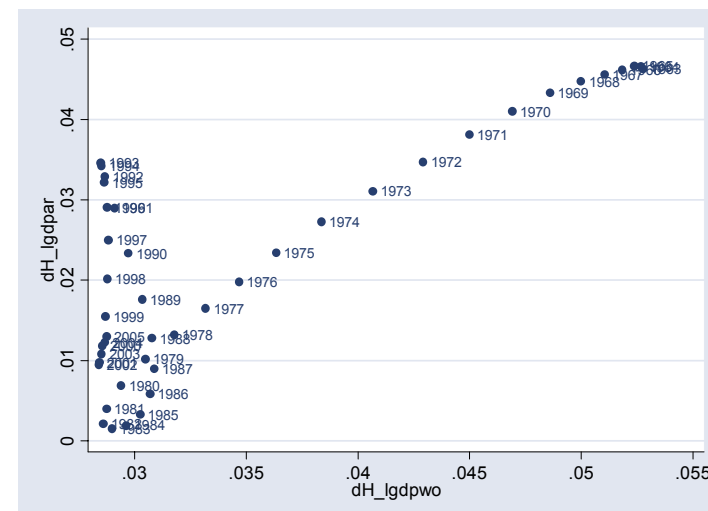
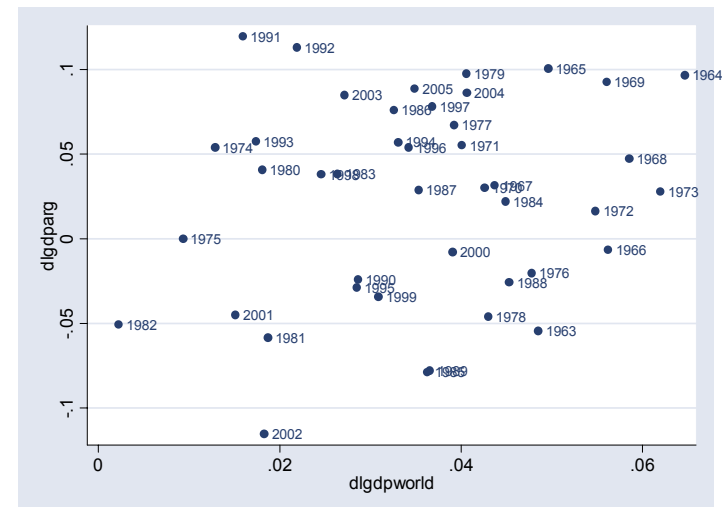
- But how much does this matter if your are running surpluses?



External factors do not seem very relevant in explaining Argentina's performance

	<i>Dependent variable: Real GDP Argentina</i>		
	Δ GDP 1962-2005	Δ (Trend of GBP) 1962-2005	Δ (Trend of GBP) 1978-2005
Δ (Real GDP World)	0.254 (0.719)		
Δ (Trend of Real GDP World)		1.097*** (0.159)	-1.628 (2.177)
Δ Log(Terms of Trade)	0.059 (0.113)	0.005 (0.014)	0.006 (0.024)
Treasury Bill Rate 10 years (nominal)	-0.005 (0.004)	-0.002*** (0.001)	-0.002** (0.001)
Observations	42	42	27
R-squared	0.073	0.723	0.27
Mean	0.022	0.023	0.015
St Dev	0.059	0.015	0.011
Min	-0.115	0.001	0.001
Max	0.119	0.047	0.035

* significant at 10%; ** significant at 5%; *** significant at 1%

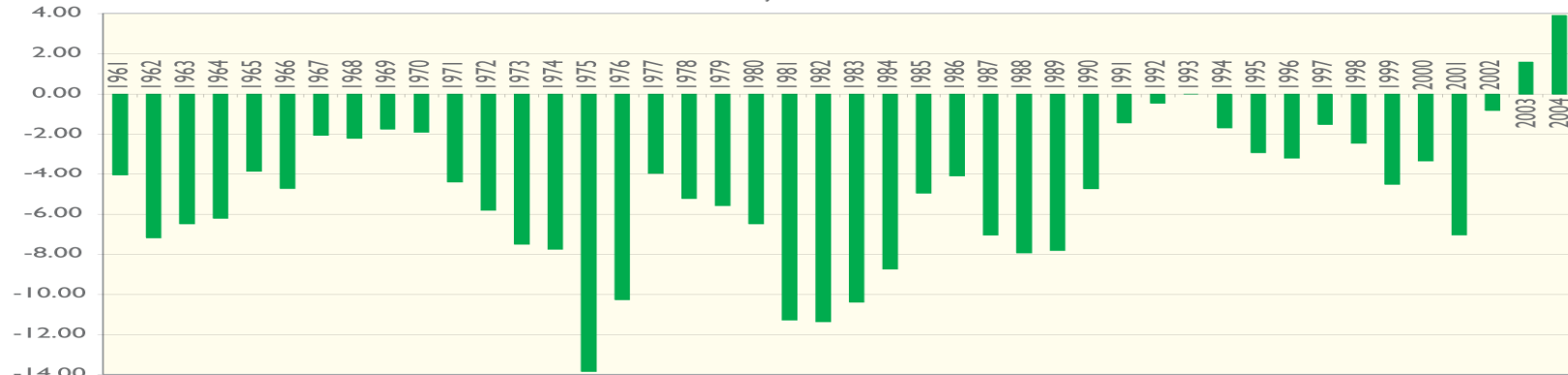


So what are current domestic policies?

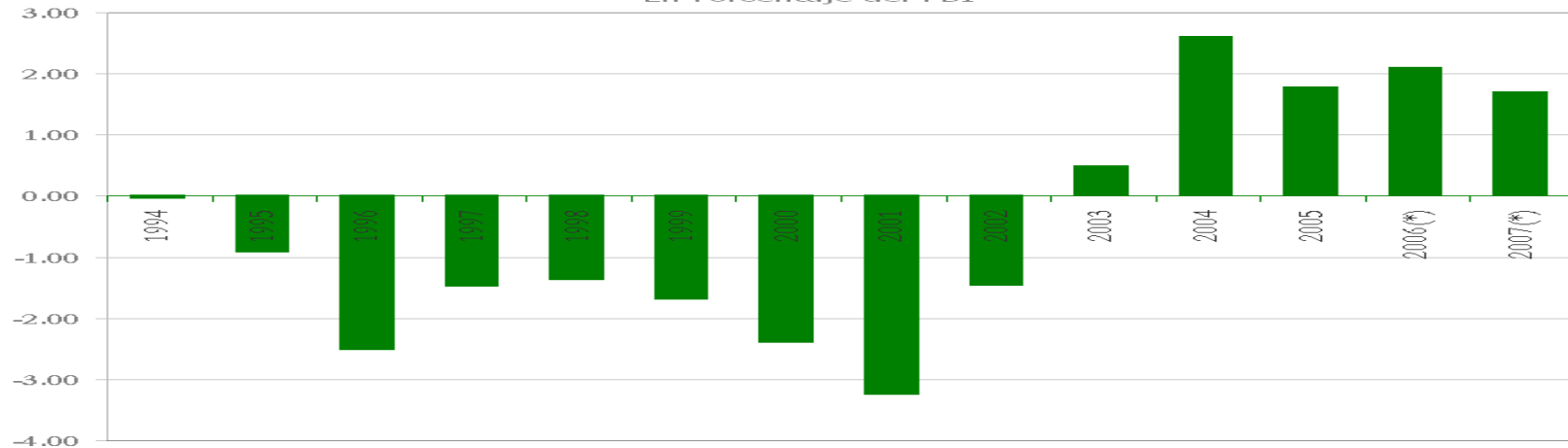
- The Kirchner model:
 - Fiscal surplus
 - Debt restructuring
 - Undervalued currency
 - Income policies
 - Expropriation of some existing capital

Spot the difference!

Resultado Financiero del Sector Público No Financiero (1961-2003)
El Porcentaje del PBI



Resultado Financiero del para el Sector Público Nacional no Financiero (1993-2007)
En Porcentaje del PBI



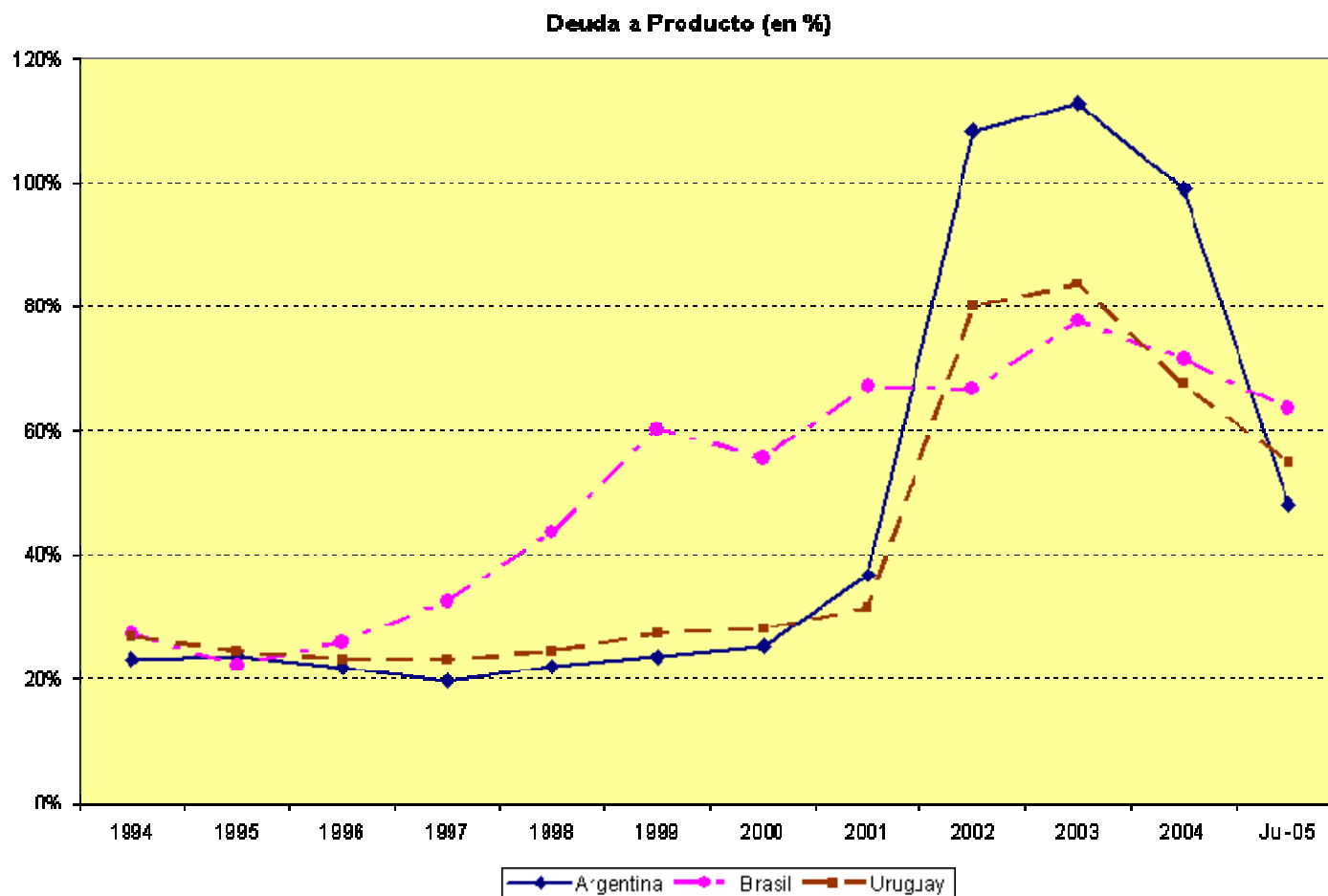
(*) Proyección Estimada

Debt restructuring was a great deal for investors...

- The holder of a par has today has received 61.1 cents on the dollar
- The holder of a discount has received 51.3 cents on the dollar
- Nicola Stock's gaffe
- Why didn't the IMF support the deal? (at least because of its use of the kicker)
- The Nielsen liquidity dilemma. Using up 12.7 billion of debt would have saved 72 billion of payments!
- Not paying to holdouts is blessing in disguise

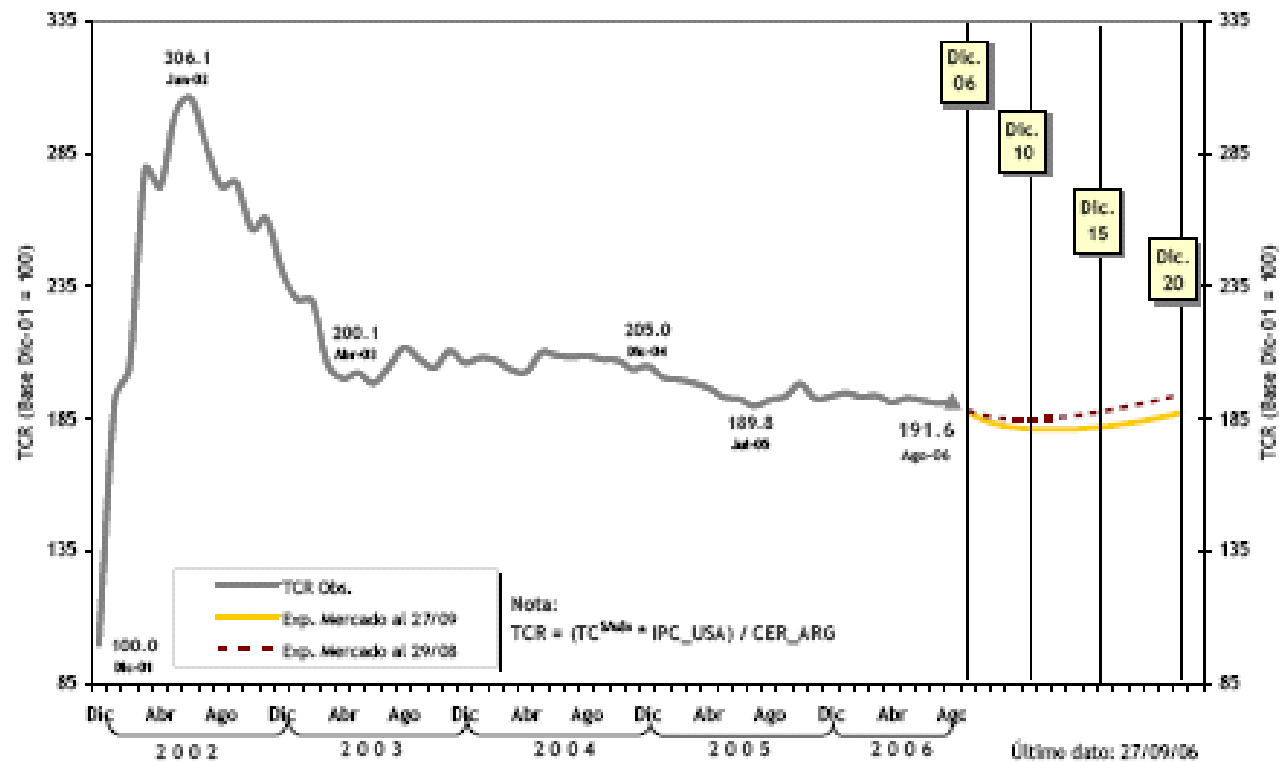
And for the country...

(debt in comparable terms from CLYPS, 2006)

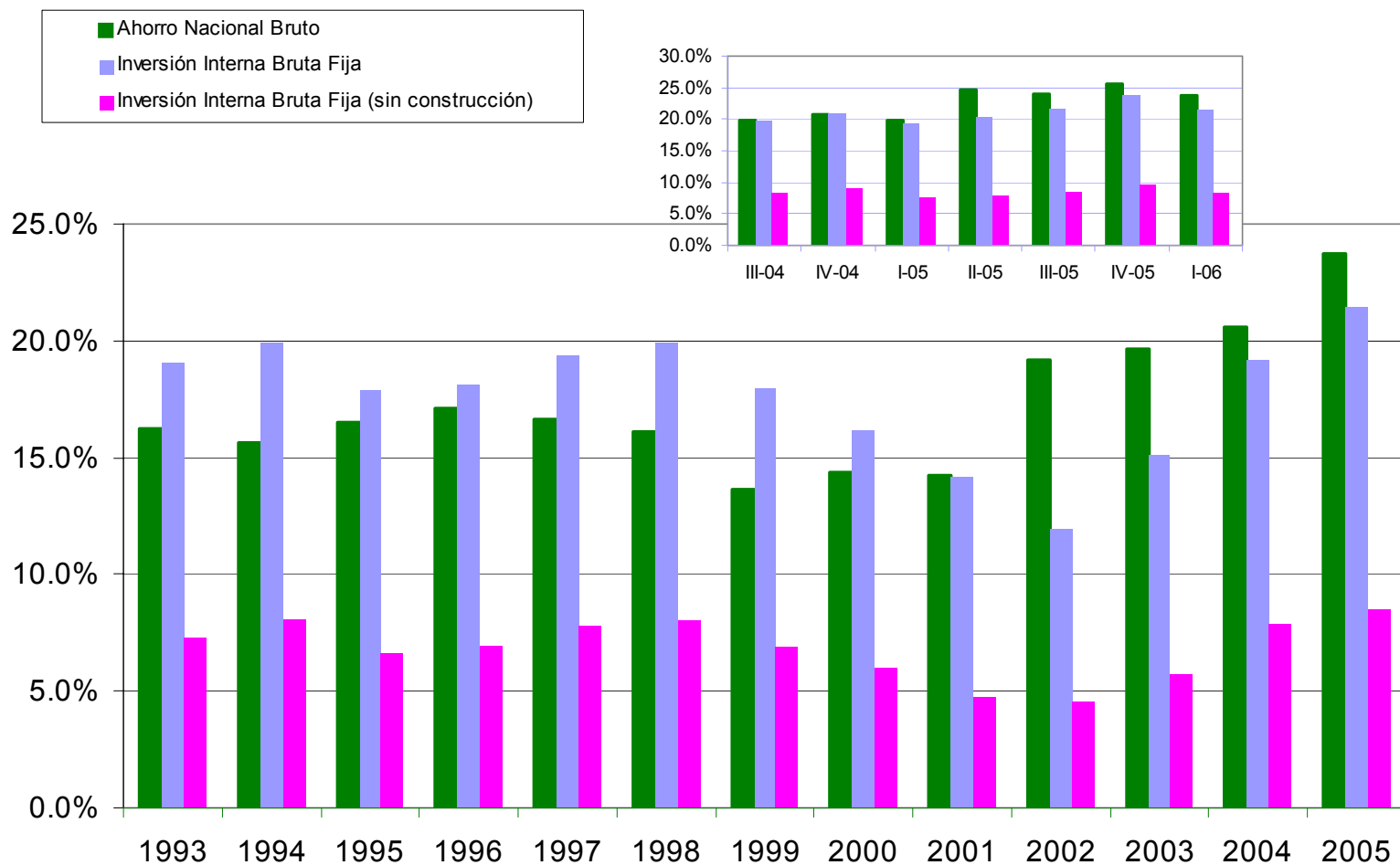


The currency has remained and is expected to remain undervalued

Tipo de Cambio Real Observado y Expectativas del Mercado
 Peso/Dólar - Índice Base Dic-01 = 100



Which has led to higher savings and investment



Some clichés that need to be debunked... (I)

- The “distortionary taxes” issue
 - Export taxes and the FTT actually *reduced* the distortion that exists from the fact that there is tax evasion (Sturzenegger, 2006)
- And then ... can you have a surplus without taxes?

Some clichés that need to be debunked... (II)

- The “coparticipacion” problem is not real
- Sturzenegger and Werneck (2006) show that procyclicality of local revenues arises from local tax bases
- The real problem is bailouts...
- And this has not been solved
- (but concentrating in coparticipacion does not help to focus there)

Regulation & Inflation & Price fixing

- Price controls have been 100% ineffective in reducing the inflation rate
- But inflation is not an 80s phenomena so it is a “choice variable”
- May it be that renegotiations acted as “completing the contracts”?
- Over time increased price controls imply cross subsidies
 - In some cases paid by firms
 - In some cases paid by other customers (e.g. gas for industries)
- Most subsidies charged on fixed “old” capital
- Somewhat more state intervention in some sectors

Risks

- Will fiscal results remain strong?
 - Pension system
 - Provinces
 - Wage pressures
- If you are a friend of power you accept a lower ex ante return, if you are not you ask for a higher return
- The latter may affect competitiveness in the medium term

Conclusions

- How do you make 6MM in Santa Cruz?
 - By running a foreclosures business
 - And then use the same style when President
- Argentina has been growing at Chinese rates but investing only half: output growth will fall
- But the transition will be made without a macro crisis
- For Argentina that is a first