

Argentina's Multifaceted Crises due to Economic Mismanagement

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ABSTRACT: Former Spanish colony Argentina is the eighth largest country in the world and one of the distinguished nations in Latin America. The land of Tango has had a chequered past of roller coaster ride of economic boom and bust. Ever since it secured independence in 1816, it has defaulted nine times on external debt. Its traumatic \$100 billion debt default in 2001 pushed millions of middle class into poverty. In recent times Argentina is beleaguered with enormous economic challenge. The country has been in the grip of recession since 2018. It's reeling under soaring inflation that expedited currency depreciation, stock market crash, massive unemployment, increasing poverty and enormous debt burden. Newly elected president Alberto Fernandez is under tremendous pressure to restructure Argentina's debt. The country under the previous leadership of President Mauricio Macri took the highest ever loan from IMF but failed to set right the economic condition. Under the new regime, government rolled out various reform measures and negotiated with bondholders for the possibility of debt restructuring. However the outbreak of COVID 19 has wreaked havoc on Argentina and the fallout could be an economic contraction by 10% in 2020.

KEYWORDS: *Debt burden, Economic crisis, Impact of COVID 19, Policy measure, Poverty level, Restructuring of loan*

I. INTRODUCTION

Argentina has one of the most diverse landscapes ranging from Andes Mountain range, lush plains of Pampas and arid Patagonian plateau in the south. This notable South American nation contains enormous natural resources in terms of energy and agriculture in its vast territory of 2.8 million square kilometres. It is profoundly enriched with copious fertile land, mineral deposit in pampas plain and vast oil and natural gas reserve. Argentina is the third largest economy in Latin America. It is fortunate to have exceedingly literate populace, export-centric agricultural section, and progressive classified industrial division. It had been a thriving economy with rich heritage and flamboyant culture in the remote past, but major part of the 20th century has been tarnished by economic deceleration, unrelenting fiscal and current account shortage, exorbitant inflation, escalating debt and rampant capital flight. It has been grappling with recession since 2018.

The incumbent government in Argentina is walking on a tight rope to resurrect the moribund economy. Multiple challenges put the economy between devil and the deep blue sea. Negative real GDP growth rate portrays economic deceleration. As per the forecast by Goldman Sachs Group the economy can run down by 9.3% in 2020. Economic activities could be lowered by 13-15% as industrial operations have shrunk since the outbreak of the virus and downsizing of employees has resulted in colossal layoffs

taking the unemployment rate to double digits, household income has plummeted and consumer demand has slid. Market confidence has been shattered as economic outlook looks dismal. As per private estimate, 40% of the populace became poverty-stricken by April, 2020. The draconian rule of Mauricio Macri had caused excessive taxation, foreign exchange control and negation of currency convertibility. Since 2018 the country has struggled with steep inflation, steady devaluation of peso, surge in capital flight, plummeting central bank reserve and unrelenting recession. Newly elected president Alberto Fernandez remains in fire fighting mode since ascendance to power. He shouldered the humongous responsibility of correcting economic irregularities, consulting with creditors for debt restructuring and fighting invisible demon of COVID 19 with its slender exchequer and inadequate healthcare facility.

II. LITERATURE REVIEW

In the article published in CNBC on May 2020 titled 'On the brink of default, Argentina says there's a 'big chance' its May 22 deadline will be extended, author Sam Meredith underlines the multiple challenges Argentine economy grappled with such as, two-year long recession, rising inflation, and surging incidence of poverty. South American correspondent Katy Watson in his BBC news article 'You can't ask people to die': Coronavirus woes deepen Argentina's crisis' portrayed the real scenario of crisis

ridden Argentina in 2020. She gave a vivid description of hardships and troubles faced by the common man which aggravated in the wake of the pandemic.

Mark Weisbrot, in his article 'Lives depend on Argentina's Debt Talks' published in The New York Times on May 19th 2020 highlights the dilemma of the debt ridden economy. He states that if paltry foreign exchange reserve of Argentina was used for debt repayment, mounting healthcare expenses to tackle spread of COVID 19 would get severely affected. Economists Joseph E. Stieglitz, Edmund S. Phelps and Carmen M. Reinhart in their article 'COVID-19: Why restructuring Argentina's debt is so significant' published in World Economic Forum (WEF), referred about urgency of Argentine economy to secure restructured debt which is pestered deeply in the wake of COVID 19. They mentioned about noble initiatives undertaken by IMF, World Bank and UN to assuage the debt problem of poorer nations when uncertainties loomed large. The granting of moratorium by G 20 nations on bilateral debt had been highlighted.

OBJECTIVES OF THE STUDY

The principal objectives of the research paper are delineated below-

- i. To highlight the background and leading causes of economic hardships of Argentina
- ii. To outline the gravity of economic turmoil, consequence of recession and possible resolutions.

III. METHODOLOGY

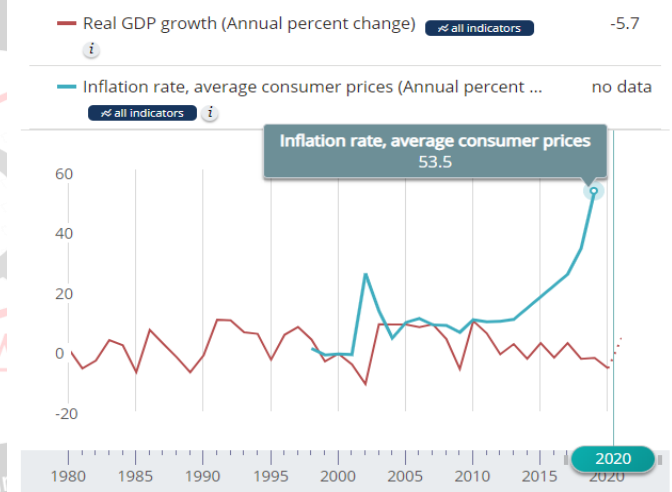
Descriptive, exploratory and analytical methods were adopted to accomplish the research objectives on the aforesaid topic. Effort has been made to discover the real economic challenges, gravity of the crisis and prime causes behind economic distress. Secondary data, facts and information were gathered, analysed and interpreted. Columns in business magazines, newspaper articles, and web publications from trustworthy sources have been used to establish the authenticity of the economic phenomenon. Visualisation of data is done diagrammatically to substantiate the fact. Historical background delineated to clarify the evolution of present circumstances. Macroeconomic Data have been presented to clarify gravity of economic distress. Economic condition of a nation is dynamic concept. It reflects in monthly and quarterly performances. Further research is plausible to illuminate the difficulties, decision deficiencies and to provide guidelines for rebound of Argentine economy. Argentina might improve in its economic performance which relies heavily on economic policy decision, control of fatal virus and external global scenario.

THE MAGNITUDE OF ARGENTINA CRISIS

Argentina's macroeconomic condition is in ramshackle. Real GDP growth rate has decelerated since 2018 and

reached -5.7% in April 2020. Inflation rate spiralled high and reached above 50%. The rising inflation put pressure on the currency and Argentine peso has depreciated 68% since 2018. Argentina's foreign exchange reserve has plummeted sharply since April 2019 and has reached its lowest ever in May 2020 on account of diffused foreign trade and earning prospects owing to the outbreak of COVID 19 which was first detected in Argentina in early March 2020. Lockdown order and confinement measures affected market forces adversely in the entertainment, transport and hospitality sectors. Household income remained subdued owing to surging unemployment, low wage rate and striking number of corporate insolvencies. The cascading effect caused a dent in automotive and retail sales which dipped by about 50% in March 2020 with textile, shoe and furniture business recording highest slump in sales. Real estate sector too is struggling due to the social and economic scenario. The dismal economic scenario could well be understood through the following figures.

Figure - I: Argentina GDP growth and inflation rate in April 2020

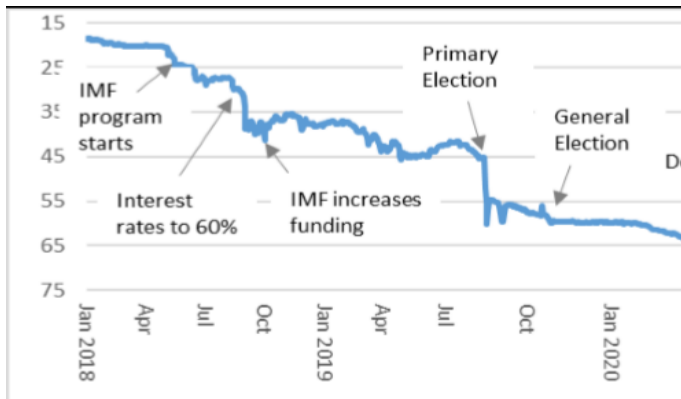


Source: IMF Data Mapper, April 2020

In the above figure I, declining trend of Argentine real GDP is clearly depicted. Since 2018 economy is stuck in recession and de-growth is registered as -5.7 percent in April 2020 which might decline further if pandemic continues and debt burden escalates. Economic activities declined sharply since outset of 2020 and plummeted more than 25 percent in 6 months duration. The squeeze in economic hustle may restrict growth further. Inflation went high since 2010, and it rose unabated in successive years to reach 53.5 percent in April, 2020. It weakened Argentine currency peso severely and affected purchasing power to great extent. Affordability of goods and service plummeted sharply which exacerbated further due to supply shock in the market after corona outbreak. As per UN analysis, Argentina is the worst affected in Latin American region. As per World Bank data, urban poverty rose to 35.5% and

child poverty reached a shocking 52.3% owing to economic contraction.

Figure II: Value of Argentina Peso (per unit of USD)- 2018 to June 2020



Source: Global Financial Data, June 2020

In the above Figure II, the fall of Argentine peso is unmistakably illustrated. Sharp deceleration in Argentina started in the beginning of 2018. President Mauricio Macri’s market friendly policy stimulated foreign currency borrowing but it backfired with inflation, depleted currency value and exodus of capital. Loan in foreign currency didn’t go for development project or infrastructural amelioration. It was expended mostly on current expenditure. Country received monetary support of \$57 billion from IMF in 2018. Though IMF called for tighter monetary policy and budgetary control, Argentina failed miserably to maintain fiscal prudence resulting in lofty foreign indebtedness and unavoidable recession. New president came to power in December 2019 with much hope and expectation but till mid of 2020 economy remained in dire straits and currency remained in downward spiral. Over four years, Argentine peso lost 333% of value against US dollar. Debt default in May 2020 made the situation more squalid. Trust factor of Argentina reduced to rubble among world creditors and access to further loan is miniscule and expensive. Lose of exchequer to battle infectious disease and serving the loan has put the economy great predicament. Recovery could be long drawn with negotiation with creditors, fiscal discipline and agonizing austerity measure.

HISTORICAL EVOLUTION AT THE BACKDROP OF CURRENT SITUATION

Argentina received independence from Spain in 1816. There was influx of immigrants from 1860 to 1930 that influenced culture and convention of the nation. In the early phase of 20th century, this South American country was one of the richest with its superfluous production of wheat, beef and assorted farm products and thrived on merit of erudite workforce of European decent. Till mid of 20th century country’s history remained mired with internal political instability and tussle between civilian and military group. Post WWII there was a period of turmoil and the era was marked by Peronist populism. Since 1930 all the way

till 1976, import substitution was followed to secure self-reliance in industrial production and agricultural output under successive governments. The end of import substitution era led to rise in government expenses, spike in wage rate, substandard production. The spiralling inflation all through 1980s culminated in huge debt burden for the nation. Democracy was retrieved in 1983 and free market reform happened in 1990s however corruption heightened and contagion effect of Asian Economic Crisis between 1997-99 caused capital disappearance on considerable scale. The worst ordeal was in 2001-02 when the country was ravaged by catastrophic economic crisis. Government of Argentina defaulted on more than \$100 billion debt obligation, inflation soared in currency crisis, Argentine peso was devalued, unemployment skyrocketed to 20% and unbridled riots and looting broke out amidst widespread hunger and malnutrition.

Economic revival happened under the Minister of Economy, Mr. Roberto Lavagna who stabilised price and exchange rate. Economy was marginally affected again in 2008 recession but rebounded commendably. However fear of overheated economy spooked the nation since mid-2011 as credit exceeded GDP by a wide margin. By May 2014, inflation was about 40% and country defaulted on dollar debt. Exchange of currency was dismissed in December 2017 and peso devalued by about 40%. Subsequent years are narrative of dismal economic performance manifested by economic de-growth, galloping inflation, growing unemployment, surge in current account deficit, yawning fiscal imbalance and unsavoury debt burden. Centre-Leftist administration of President Alberto Fernandez is currently shouldering the responsibility of rectifying economic shortcomings since elected to power in December 2019.

IV. THE IMPACT OF DOWNTURN

There is pessimistic forecast about prospect of Argentina and the economy will take time to revive. Global pandemic and spread of fatal virus casts a crippling blow to the crestfallen economy. World is in the grip of recession intensified by COVID 19 infection and fatality. Export earnings have dimmed due to travel and trade restrictions. Demand for Argentine products has slid abysmally low in world market as purchasing power is decimated severely and pervasive isolationism continues. Drain on exchequer is obvious in the process of rising healthcare and sanitation expenses. As per IMF and OECD prediction, Argentine economy will contract by 10% in 2020. Poverty level has reached 40% in April 2020 and fiscal deficit registered \$ 3.7 billion in May 2020 which might escalate to 5.5-6.5% of GDP by end of 2020. Decades of inadequate investment in vital infrastructure, financial profligacy and insufficient reform measures have made the economy vulnerable. Social distancing, safety measure and stricter lock down in Argentina caused economic slowdown which has put the economy on the brink of collapse as COVID 19 persists.

V. CONCLUSION

Argentine economic history is a narrative of heart-wrenching journey from glorious past to grave harrowing reality in recent time. The resource abundant nation thrived well with its agricultural output and industrial production in most of 19th and 20th century but succumbed to monumental debt burden later. Autarkic import substitution oriented inward looking approach since great depression of 1930 to 1970s changed to open liberal economy under armed forces led Peron. But economic mismanagement in open liberal set up continued since the 1970s under several regimes. History repeated itself as economy failed to live within its means. An agro-based, industrially diversified, tourism centric nation could have prospered well with right policy measures but it failed appallingly owing to excessive debt dependence, fiscal imprudence, corrupt practices, lack of competitive advantage for indigenous products and over-dependence on limited farm based export. Economy plunged into debt trap time and again but failed to perform radical transformation, economic reform or structural adjustment. Now the economy is in a treacherous terrain. Macroeconomic indicators are illustrating a harrowing picture. Economic growth turned negative, investment in capital formation jeopardised, current account is in deficit and fiscal imbalance is blatantly perceptible. Debt negotiation will call for austerity measures which would be difficult under the threat of corona virus. Fiscal consolidation is need of the hour to bring down fiscal deficit. Unless COVID 19 disappears normal trade will remain subdued. Trade restriction and market demand will cause impediment for trade oriented growth. Domestic demand should be boosted up through reduction in interest rate and increase in money supply by central bank. But in the ambience of hyperinflation, liquidity constraint will subsist. Consumer confidence is a big asset for buoyant economy which is missing noticeably in Argentina. Economic activity has already gone down by 25 percent in first 6 months of 2020. Government should come up with action plan to utilize resources, revamp infrastructure, calibrating of institutional facilities and streamlining public distribution system. Special care and fund allocation is required for healthcare sector overhaul as protecting lives from infectious disease should be of state prerogative. Priority should be given to welfare services for poor, care and treatment for infected people and direct cash and benefit transfer for disadvantaged and impoverished populace. The jugglery of epidemic control, debt negotiation and initiation of economic reform will prove the competency of incumbent authority in Argentina.

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