



# "Emerging from the 2001-2 crisis: Strengths and weaknesses of the Argentine economy 2003-2014"

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November 27th, 2014  
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# Facts and figures

**Population:** 40 million

**Territory:** 2.78 million Km<sup>2</sup> (8th)

10,000 km of borders with Brazil, Uruguay, Paraguay, Bolivia, Chile.

**GDP:** 460 billion Euro (21st)

**GDP per capita:** 11,089 Euro (49th).

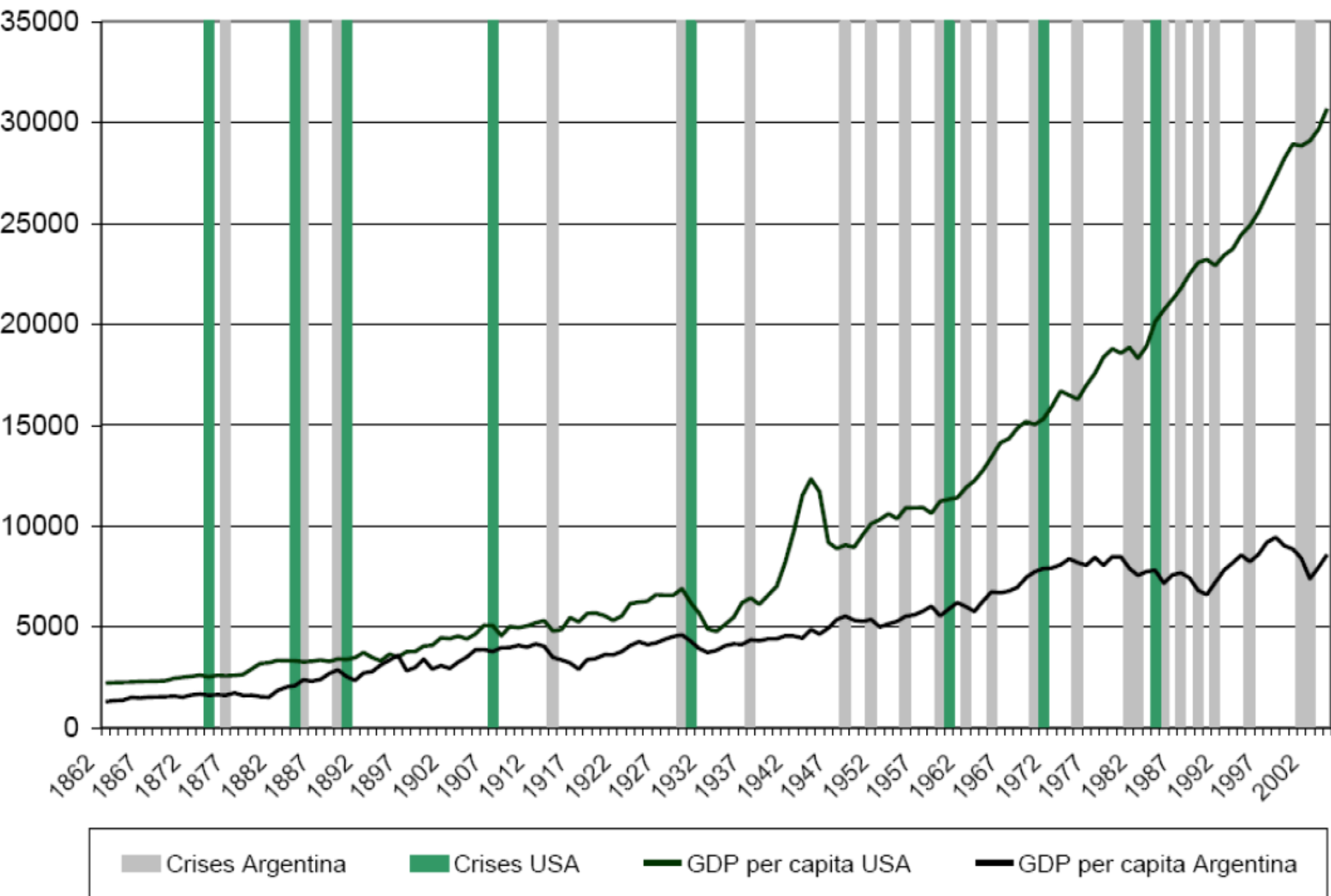
**Human Development Index:** 0.797 (very high)

**Economic growth:** 2011:8.8%, 2012: 0.5%; 2013: 3%.

**Inflation:** ¿? 25 to 40%

**Global competitive Index:** 3.87 (94th) -0.12 (-9)

# Unstable economy. From agriexport to ISI.





# Background: 2001/3 crisis



# 1990s in Argentina

- 25 billion USD arrived to the country (plus know how).
- A similar process happened in other Lat Am countries
- Argentina: direct relation between US\$ and Monetary Base.

	1990	1991	1992	1993	1994	1995	1996	1997	1998	Total
<b>Argentina</b>	7,532	2841	5,741	4,670	894	1,208	642	4,366	510	28,404
<b>Bolivia</b>	0	0	9	13	0	789	34	40	10	895
<b>Brazil</b>	44	1,633	2,401	2,621	2,104	992	5,770	18,737	32,427	66,729
<b>Chile</b>	98	364	8	106	128	13	187	0	181	1,085
<b>Colombia</b>	0	168	5	391	170	0	2,075	2,876	518	6,203
<b>Mexico</b>	3,160	11,289	6,924	2,131	766	167	1,526	4,496	999	31,458
<b>Peru</b>	0	3	212	127	2,840	1,276	1,751	1,268	480	7,957
<b>Venezuela</b>	10	2,278	140	36	8	39	2,017	1,387	112	6,028
<b>Other</b>	71	147	120	393	1,289	132	140	726	2,447	5,456
<b>Total</b>	<b>10,915</b>	<b>18,723</b>	<b>15,560</b>	<b>10,498</b>	<b>8,199</b>	<b>4,616</b>	<b>14,142</b>	<b>33,897</b>	<b>37,695</b>	<b>154,225</b>

# **Main components of the liberalization process**

1. Currency Board System – starting in March 1991 and only rejected at the end of 2001-The Central Bank could not finance fiscal deficits neither provide support to commercial banks
2. Full bimonetary system. The public is absolute free to choose the currency of denomination of their operations.
3. Total liberalization of capital movements
4. Privatization of public firms including all public utilities, under extremely weak or almost non existent regulatory system
5. Elimination of almost non tariff barriers and reductions of tariffs, from 30 % at the beginning of the 90's to 11 % in '00.
6. 1994: mixed privatized pension system. Workers could choose to divert their contributions to private funds



# The Washington consensus

Set of policies suggested by Washington based organizations (IMF, World Bank) to developing countries in order to lend them money. Argentina, IMF's best pupil.

Washington Consensus (Williamson 1990)	Augmented Washington Consensus (Rodrik 2003), addition
<ol style="list-style-type: none"> <li>1. Reduction of budget deficits to a non-inflationary level</li> <li>2. Redirection of public expenditure to areas such as education, infrastructure, etc</li> <li>3. Tax reforms to lower marginal rates, broadening the tax base</li> <li>4. Transition to market-determined interest rates (financial liberalization)</li> <li>5. sufficiently competitive exchange rates which induce a rapid growth in non-traditional exports</li> <li>6. External trade: Removal of quantitative trade restrictions; tariff reductions</li> <li>7. Abolition of barriers to foreign direct investment</li> <li>8. Privatisation of state-owned enterprises</li> <li>9. Deregulation for "start-ups", general abolition of restraints on competition</li> <li>10. Better protection of property rights, particularly in the informal sector</li> </ol>	<ol style="list-style-type: none"> <li>1. Corporate governance</li> <li>2. Anti-corruption</li> <li>3. Flexible labour markets</li> <li>4. Adherence to WTO discipline</li> <li>5. Adherence to international financial codes and standards</li> <li>6. "prudent" capital account opening</li> <li>7. Non-intermediate exchange rate regimes (completely fixed or completely flexible exchanges rates, corner solutions)</li> <li>8. Independent central bank/inflation targeting</li> <li>9. Social safety nets</li> <li>10. Targeting poverty reduction (for example the HIPC initiative)</li> </ol>
Source: Herr & Priewe, 2005, 276)	

Many politicians and economists say that these policies are responsible for the 2001-2 crisis.

# Problems

1. Strong growth up to 1998, then decline.
2. Inflexibility of 1 to 1 exchange rate. Overvaluation of the Peso
3. Unused capacity in manufacturing reached 41 %
4. Growth without development: high unemployment, increasing poverty.
5. External shocks.
6. Balance of payments deficit.
7. High level of debt.
8. Fiscal deficit

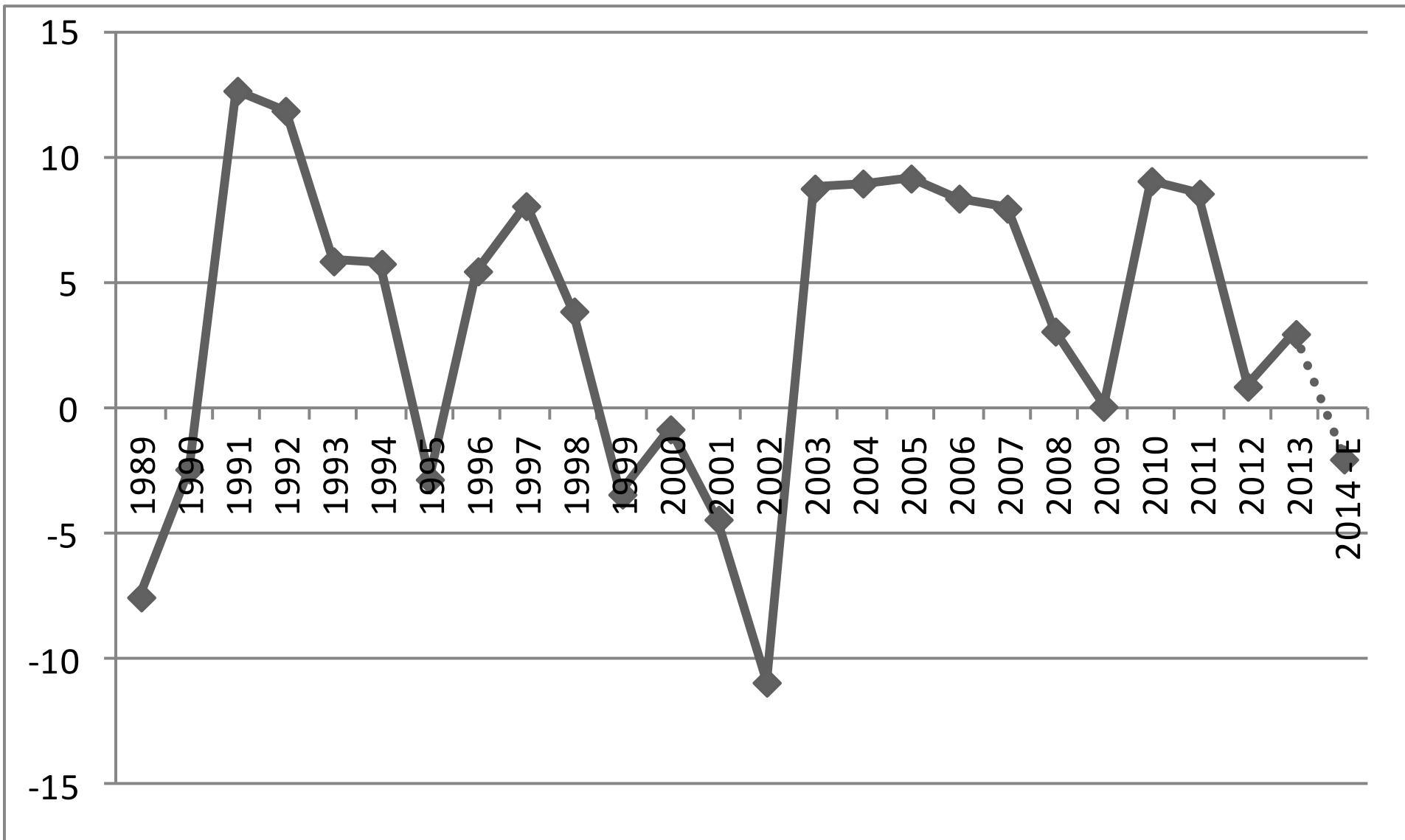


# 12/2001 -2002

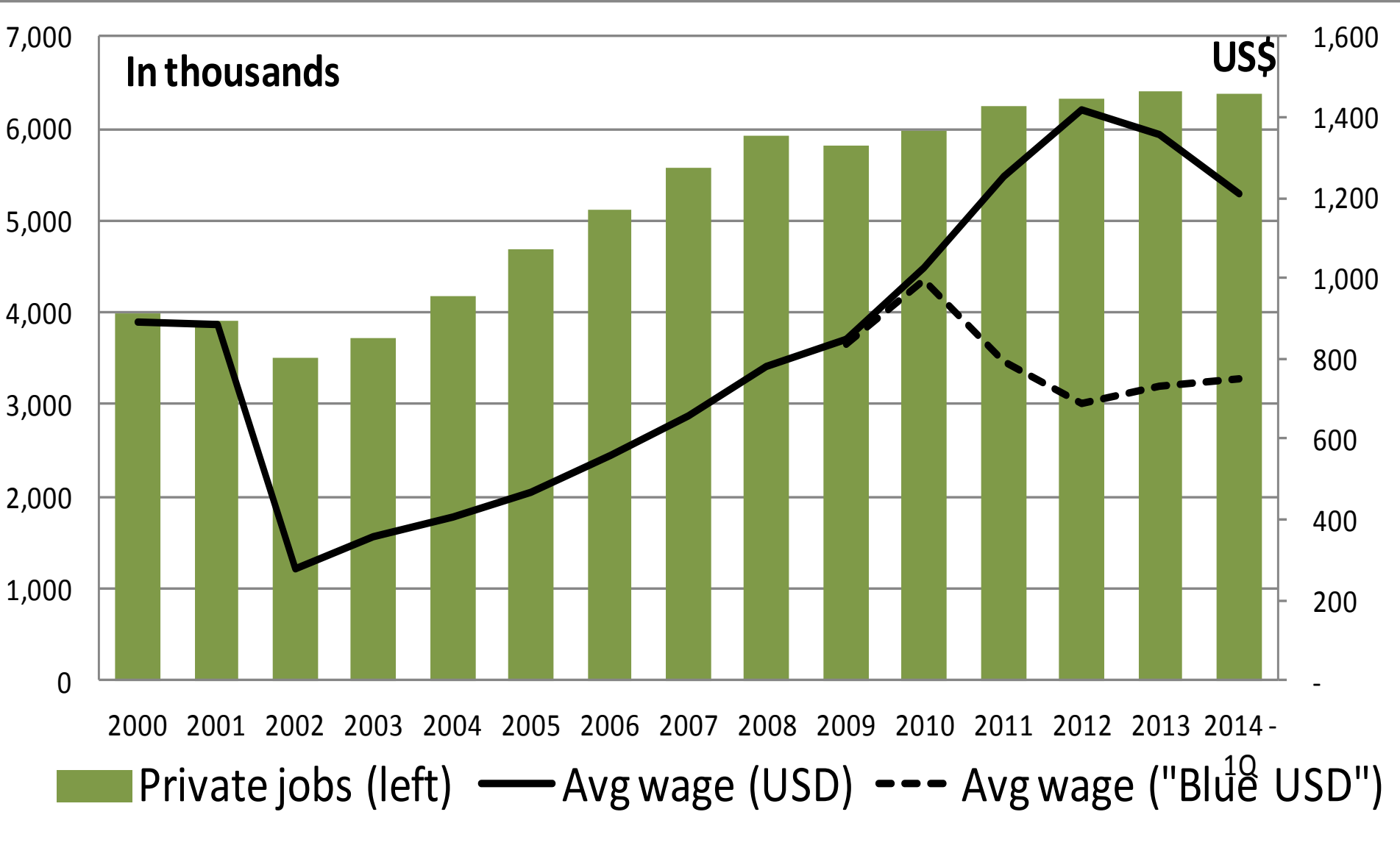
- 5 presidents in 10 days
- Devaluation
- Pesification of deposits, credits and tariffs
- Exporting sectors benefit = Export taxes
- Inflation 40% - Unemployment 22%
- Largest default in history (80+ Billion. 2004: 100+).
- President finish mandate in 2003.
- Néstor Kirchner (Peronist) wins

# 2003-2014

## High growth rate

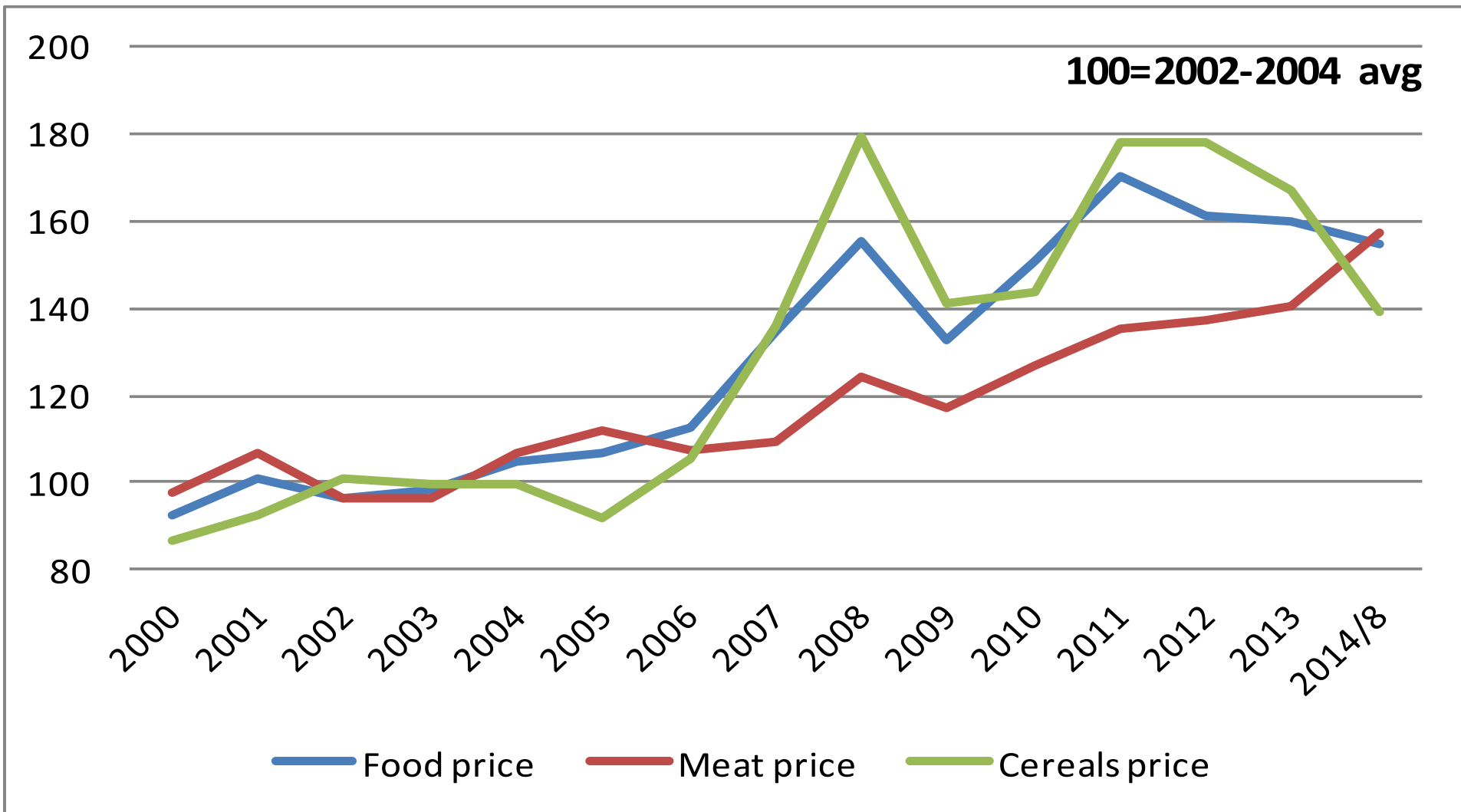


# Growing labor market, increasing labor costs

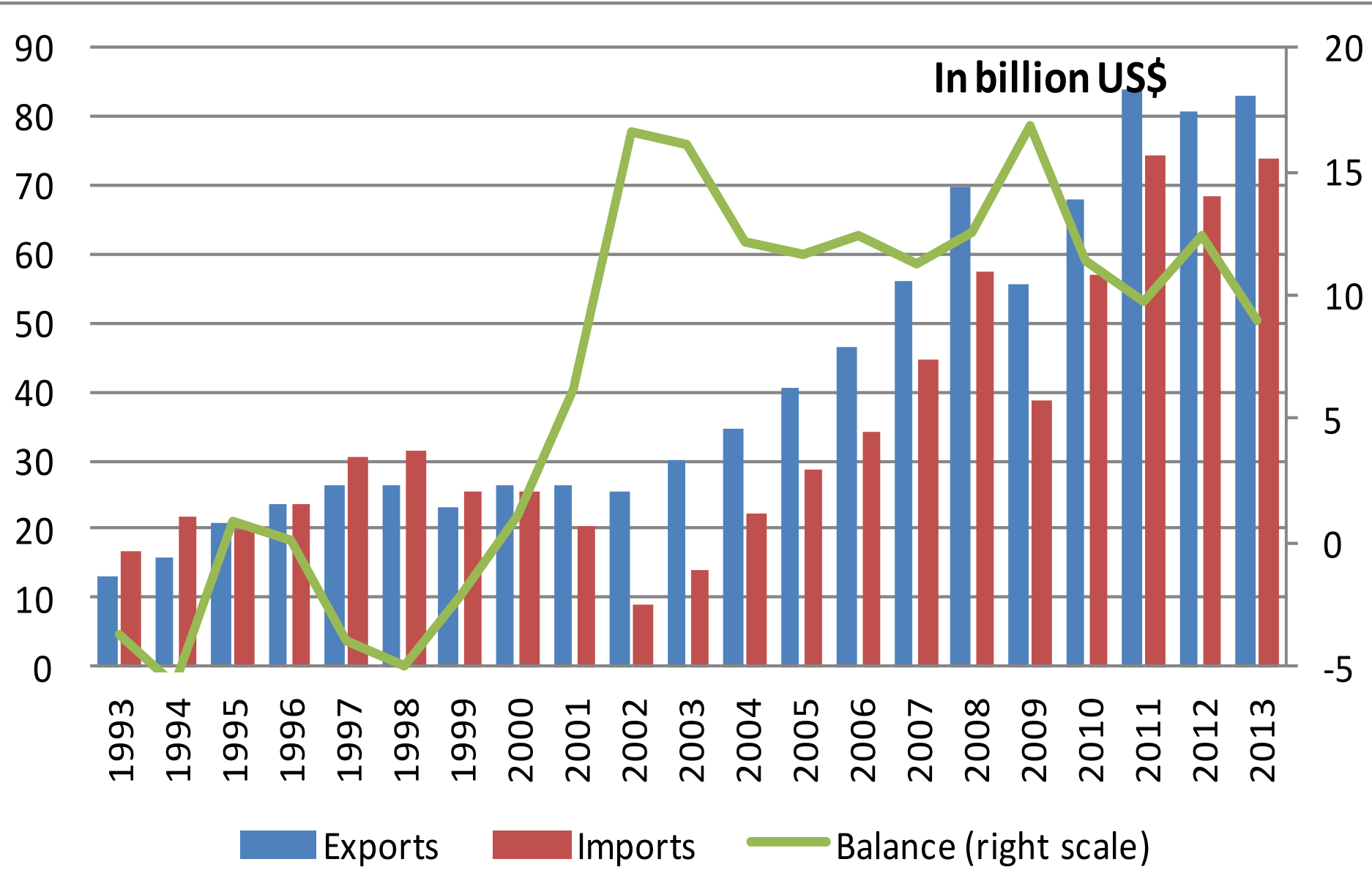


# Why?

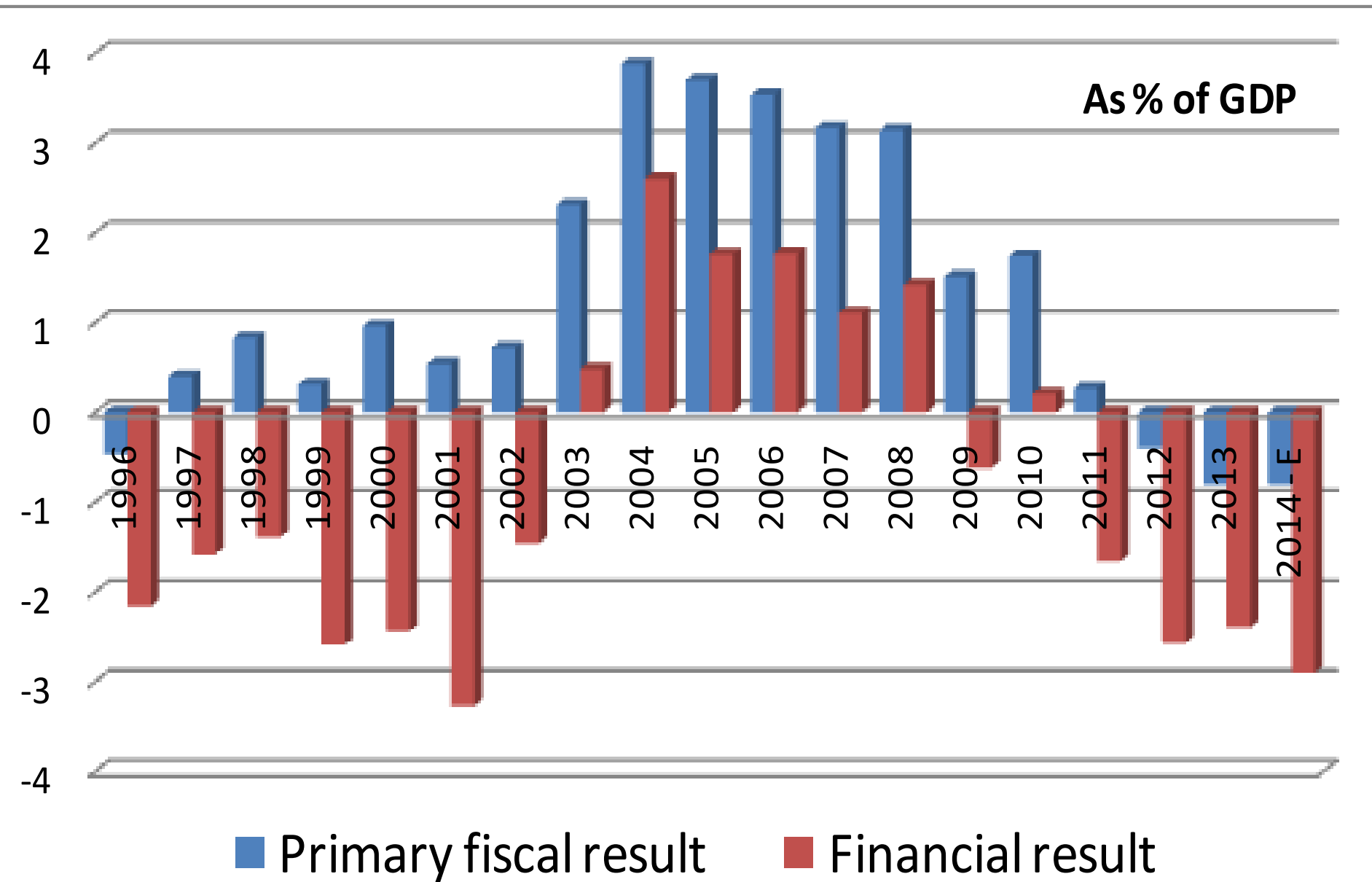
1. Global trend of growth in Developing nations
2. Brazil
3. Increase in price of food



# Positive trade balance. Decreasing superavit.

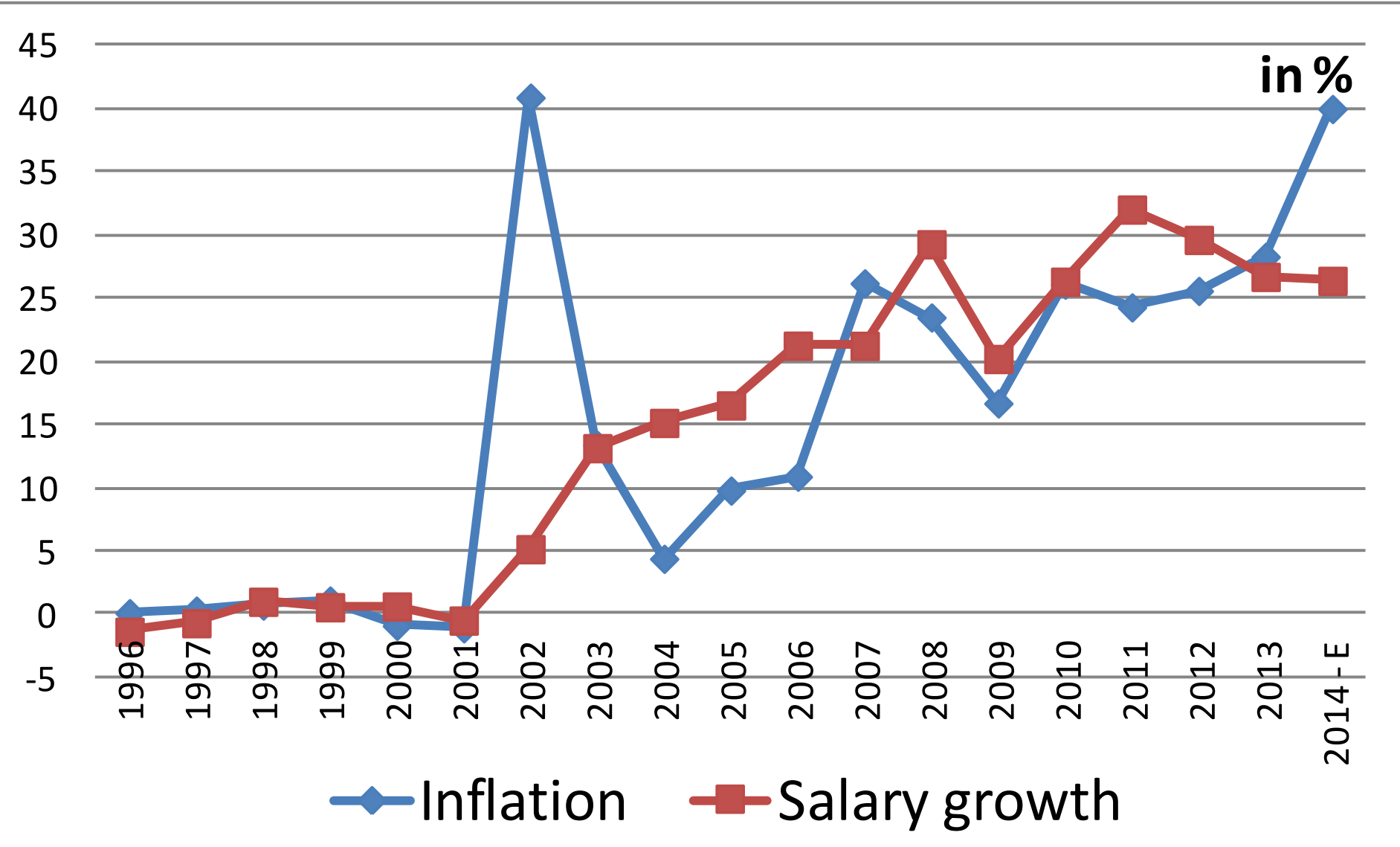


# From fiscal surplus to deficit

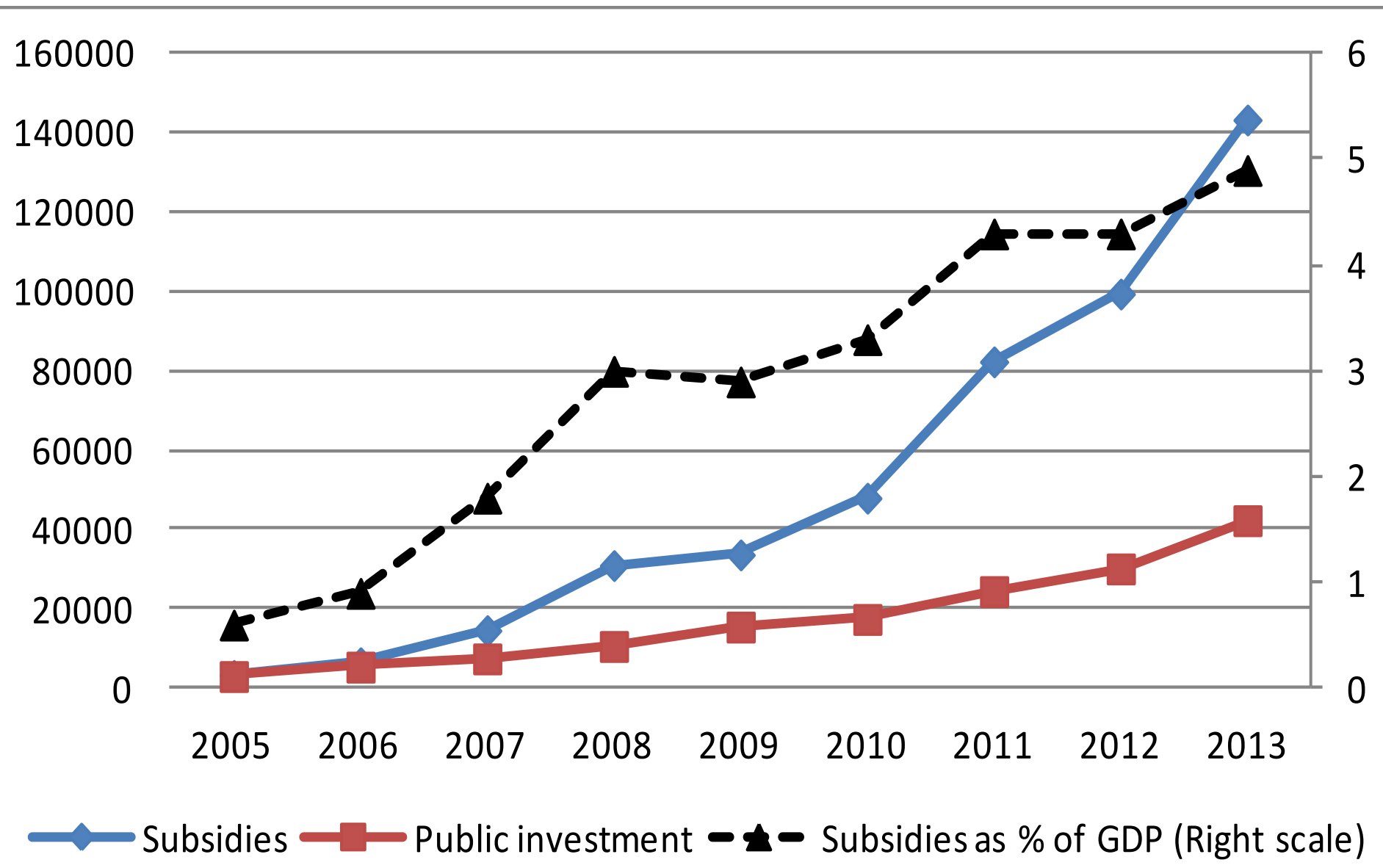




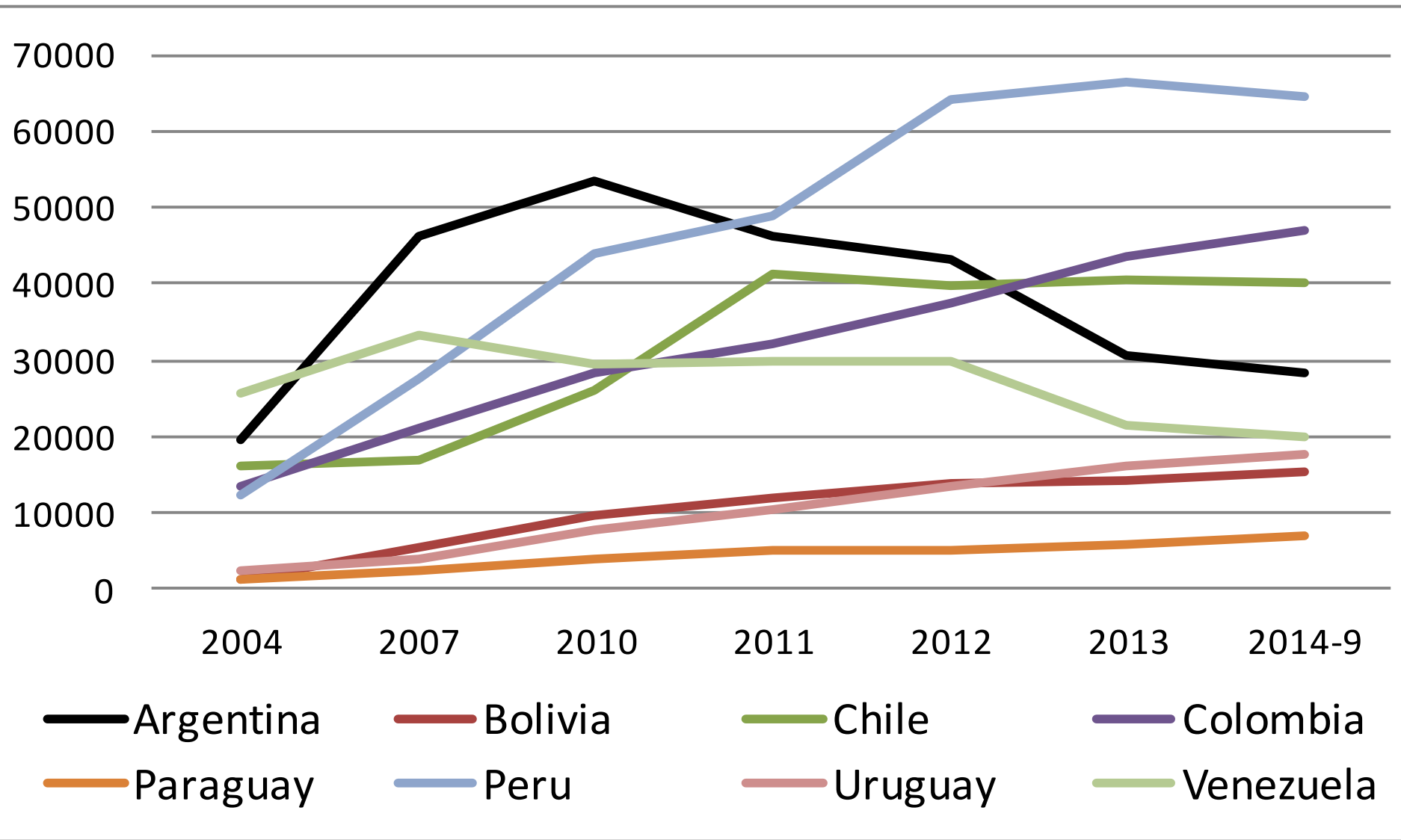
# High inflation (higher than salary growth)



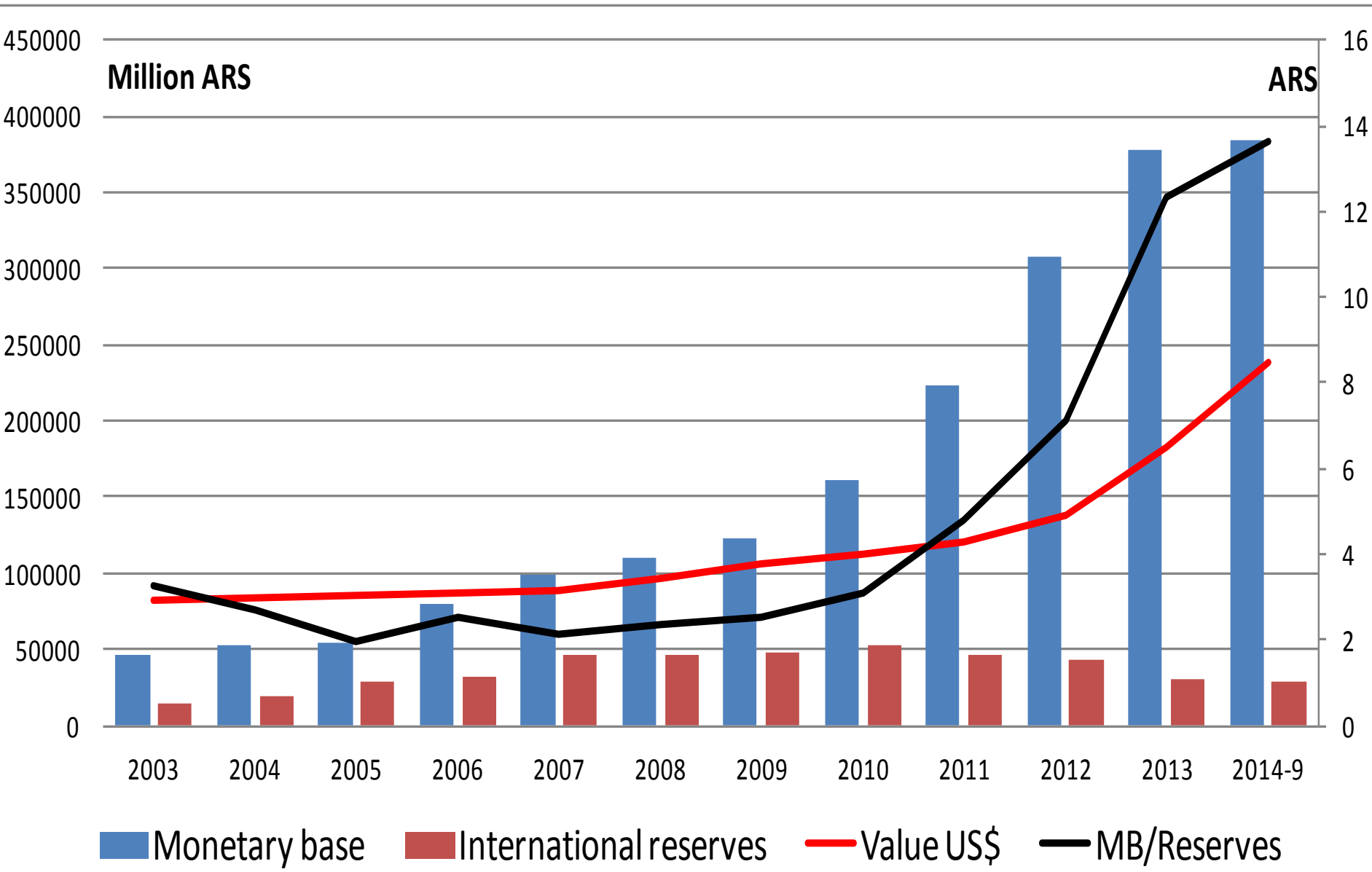
# High level of subsidies



# From growing to decreasing international reserves



# Decreased value of the AR Peso

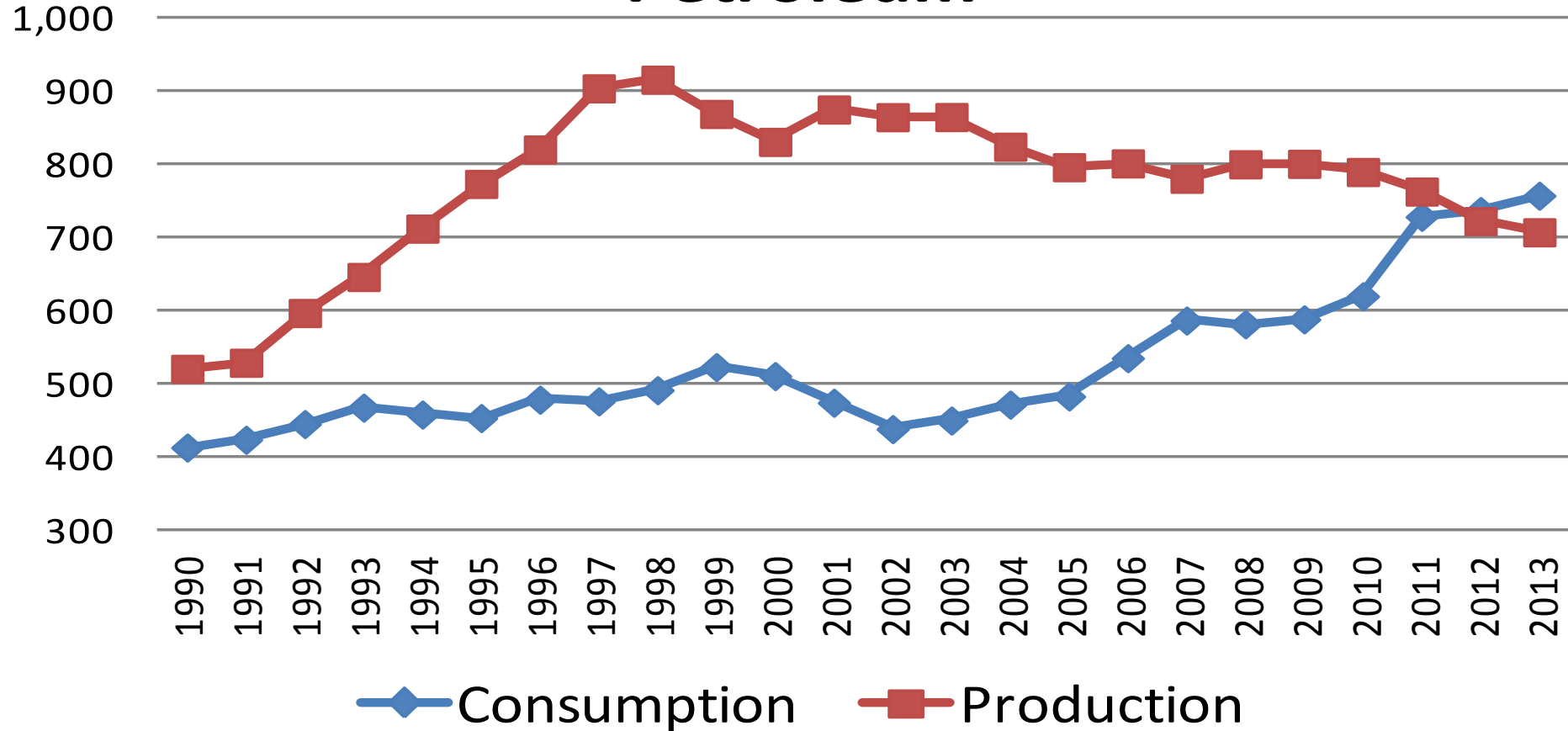


# Shale oil & gas

# Strategic for Argentina

In thousand barrels/day

## Petroleum

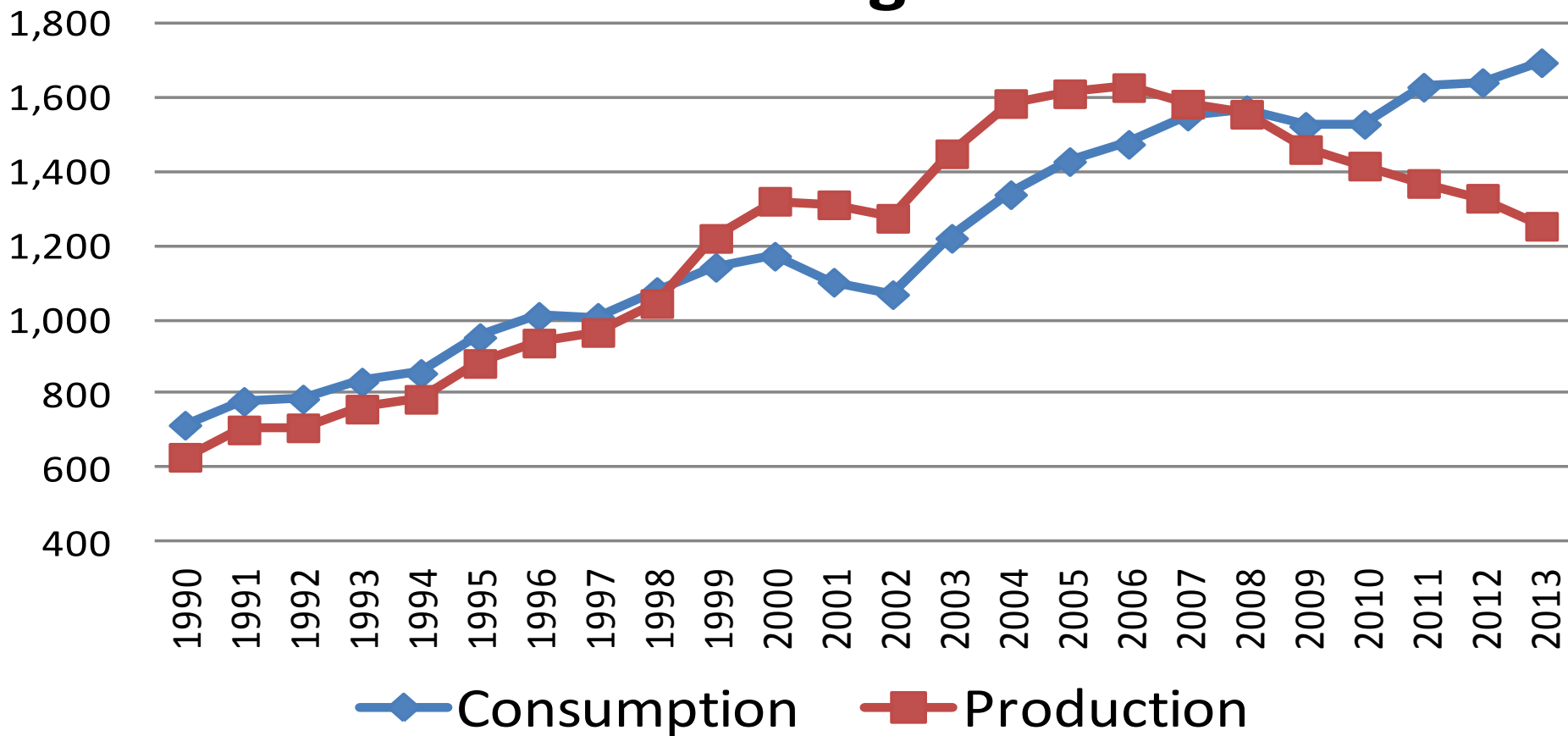


Deficit of 12 B USD in energy (2013). Increase YoY.  
Pressure on international reserves



# Natural gas

In billion cubic feet



93 B ARS (15 B USD) of subsidies to energy in 2013  
Subsidies: difficult to withdraw.  
Stagflation

# Oil & Gas

- Gasoline: Oct 2014: 1.5 USD per liter (1.17 EUR)
- Huge increase in last years (+160% in 3 years in ARS)
- “Pesification” of tariffs post 2001
- De-attachment to international prices
- Control of exports. Few incentives to explore & extract. Capital flight.
- “Discovery” of Vaca Muerta in 2011
- Nationalization of YPF (60% market share)
- How do we do it?

- Capital intensive but no access to international markets (default + trial + few companies with tech).
- YPF: No technology to extract shale.
- Environmental hazard
- Decreasing price. Break even?
- Transportation costs?





- Located 1200 km away from Buenos Aires
- 30,000 km<sup>2</sup>
- Reduced population
- High labor costs
- Limited water (de-icing)
- Imbalance: use in east, produce in west
- Imperfect transportation
- Imported goods from Atlantic

Two main production fields. Loma Campana, N<sup>o</sup> 2 in total extraction in Argentina, after Cerro Dragón (Conventional)

# Estimated 16 billion barrels of oil (aprox. 80 years of current consumption) 10x conventional reserves of Argentina

## AS OF OCTOBER 28th, 2014

Company	Basin	Partner	Investment	Comments
YPF – Oil	Loma Campana	Chevron	1.6 B	15 drillings p/m. – 12K bpd
YPF – Gas	El Orejano	Dow	150 M (+600M?)	16 drillings – 250 m3/day (experimental)
YPF - Oil	La Amarga chica	Petronas	550 M	Waiting gvt approval
GyP S.A.*	Aguada Federal	Wintershall	120 M	Expansion – bid for other blocks
GyP S.A.	La invernada – Bajo del Choque	Exxon	-	Exploration
Shell	Cruz de Lorena +2		500 M	Exploration. Good results. Deal w/ Total
Total - Gas	Aguada Pichana	PAE	1 B	13 drillings -
PAE	Lindero Atravesado		200M	
Others: Petrobras, Exxon, Pluspetrol (ARG), Tecpetrol (ARG), Azabache, Madalena Energy,				

\*GyP is a public company, owned by Neuquen province. Founded in 2008

# Outlook

- ✓ Huge growth potential
- ✓ Problems with investments (“blue” currency)
- ✓ Change of government
- ✓ More efficient shale operations
- ✓ New O&G law?
- ✓ Sound management in YPF
- ✓ Increased participation of MNC
- ✓ Opportunity in supporting industries



- ✓ Lack of infrastructure.
- ✓ Long history of Argentina's oil production (know how – skilled workforce... but limited!)
- ✓ Except YPF, all others in “exploration” stage. Matters future (2-3 years) price of oil
- ✓ Public support? Distant from major cities
- ✓ Environmental: Contamination of subsoil water?

**Argentine history: lots of resources, no capital**



**Gracias por su  
atención**

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