

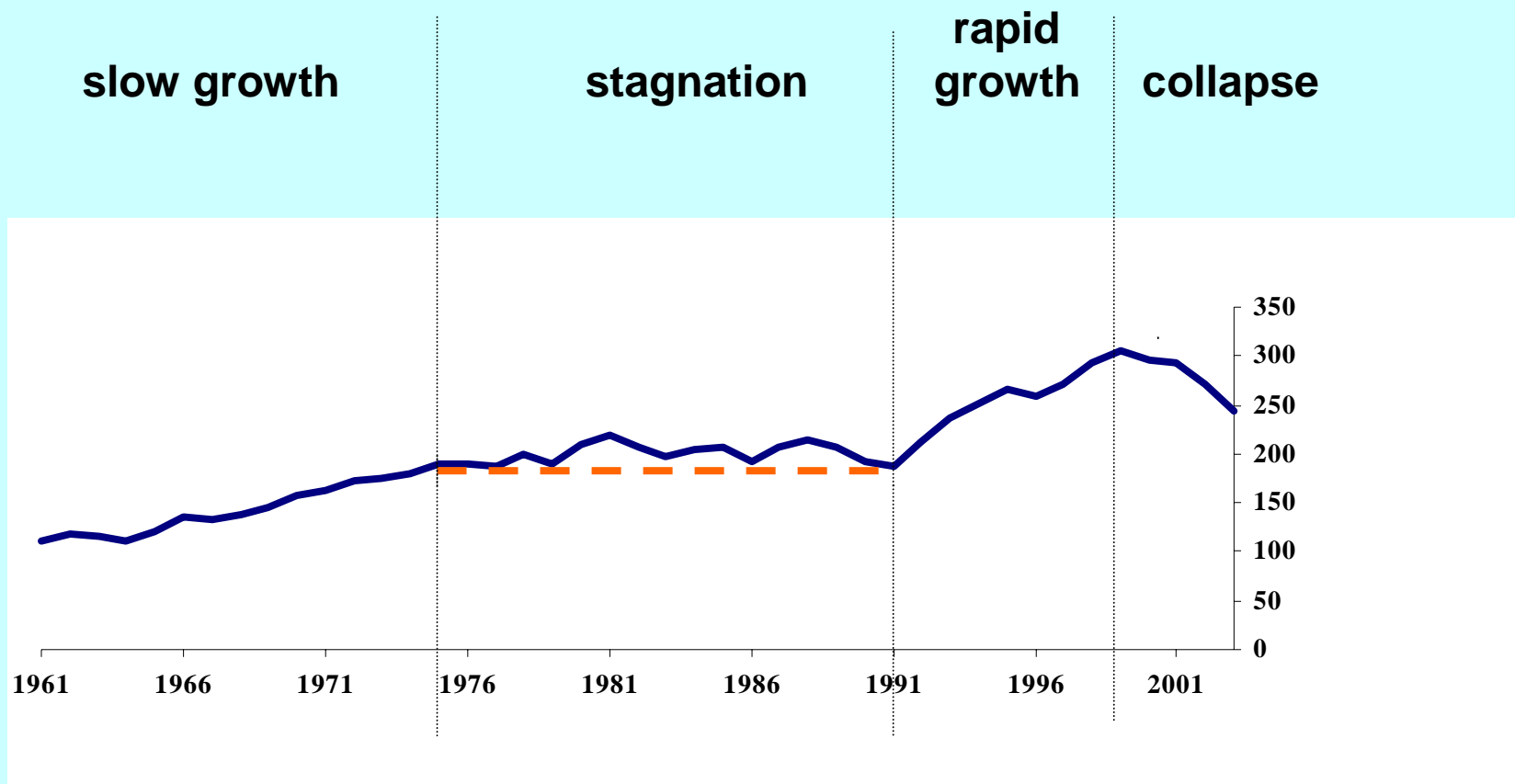
Argentina: A Case of Extreme Volatility

Mario I. Blejer

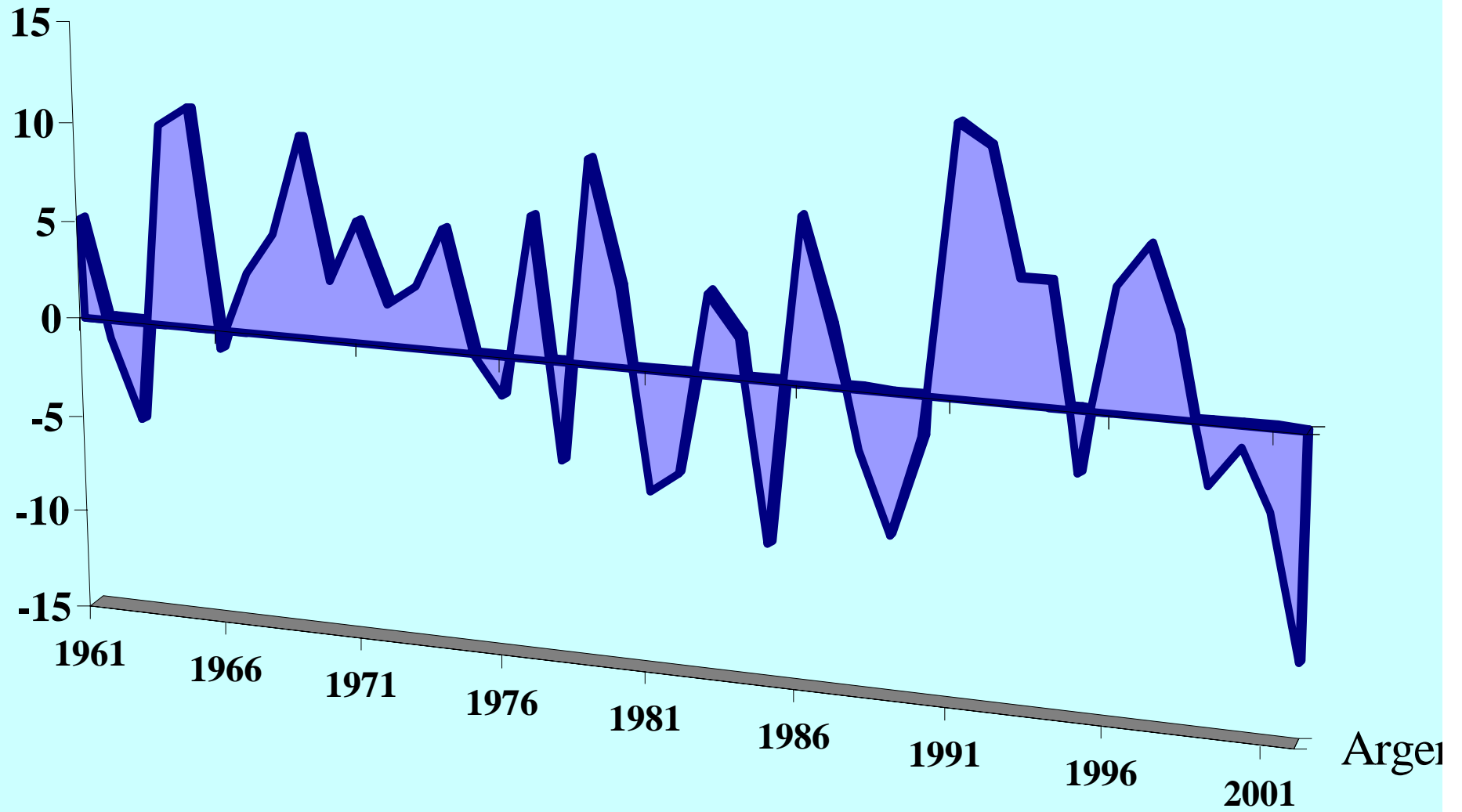
Quote from SFml. Encyclopedia (1909):

Argentina: (geog) Country in the southern end of the American continent... Given its vast natural resources and highly qualified manpower, **it is widely believed that by the middle of the current century, it could rival the United States for economic and political leadership in the continent.**

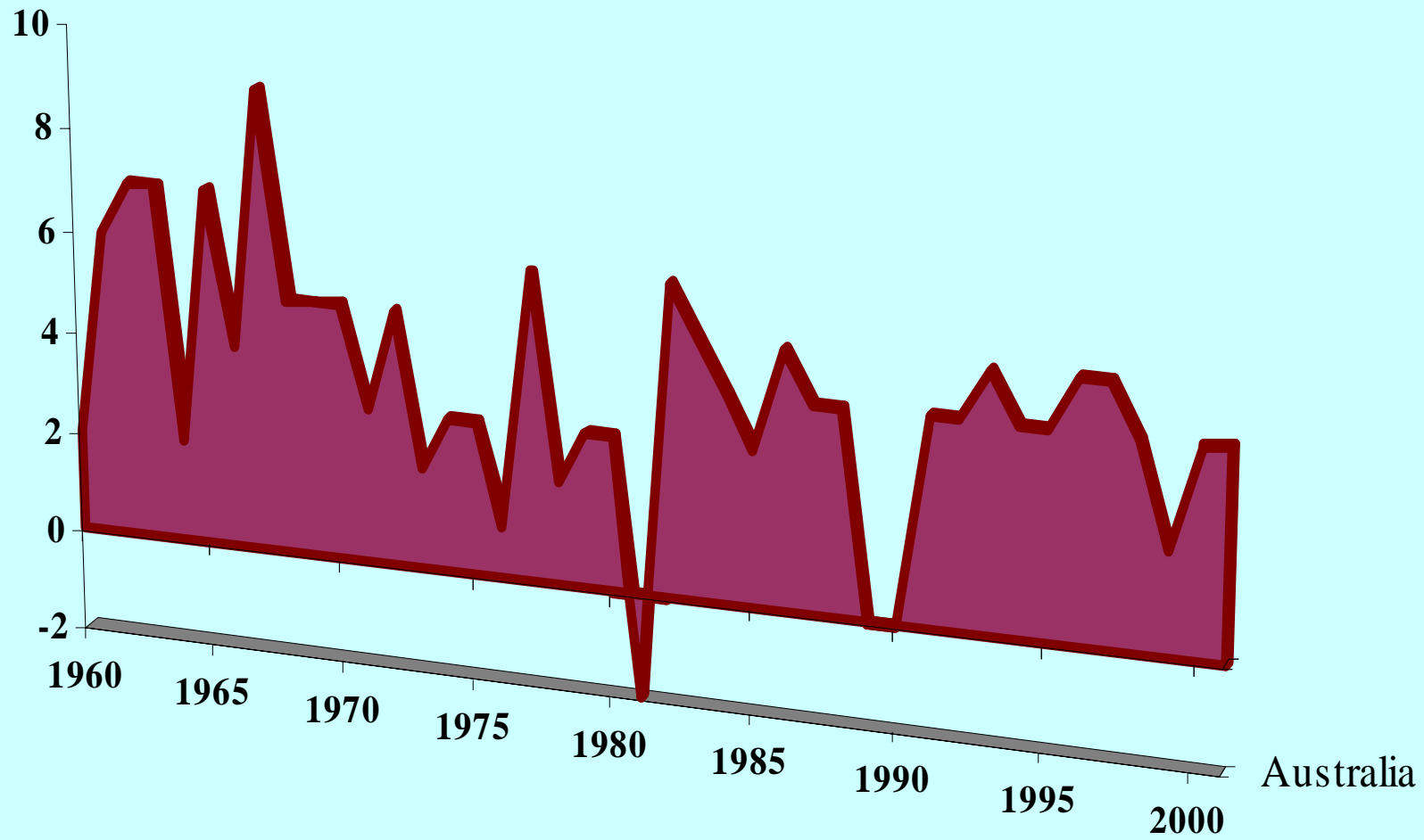
Argentina GDP 1995 Prices (Billions US Dollars)



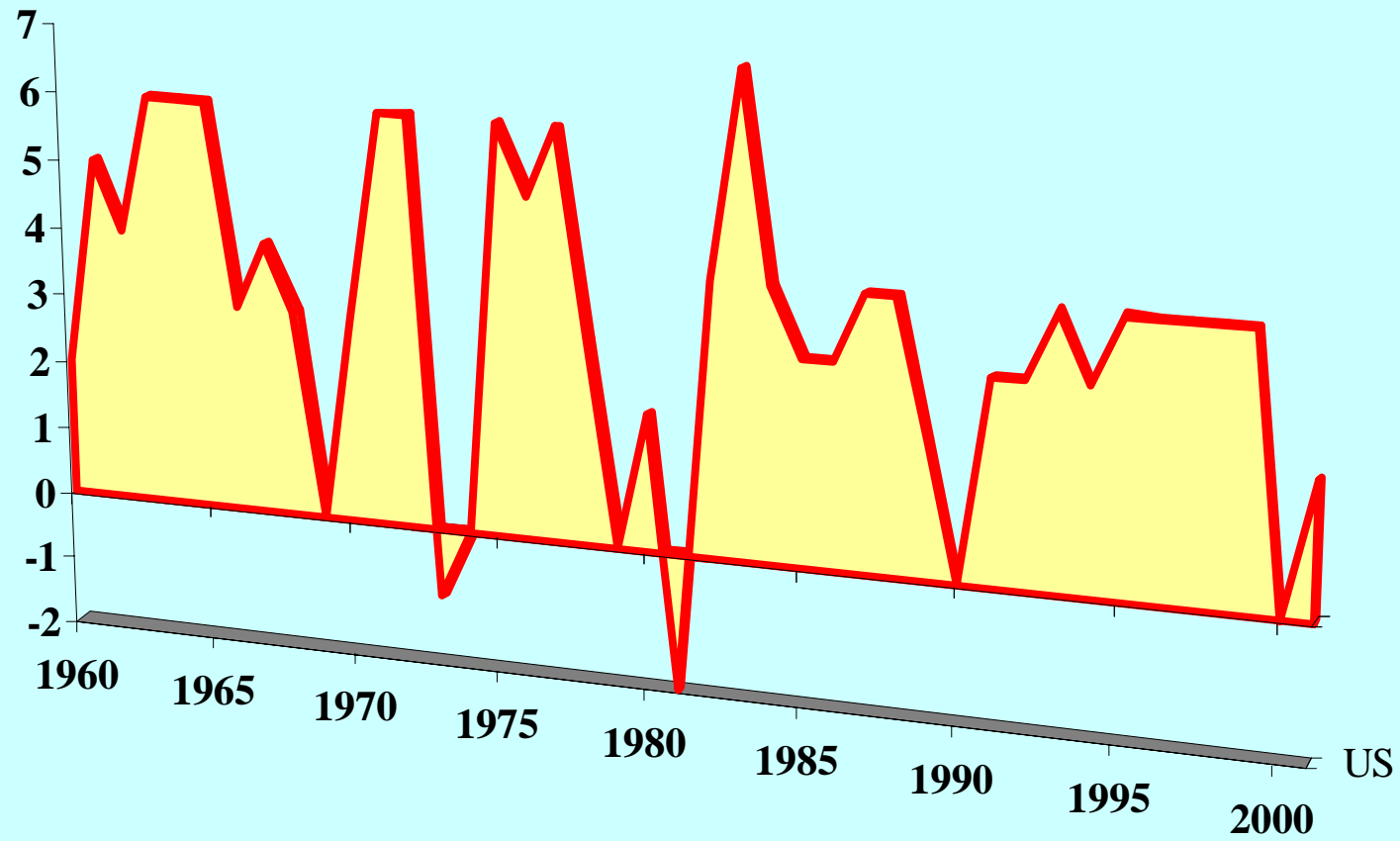
Argentina GDP Growth Rate at 1995 Prices



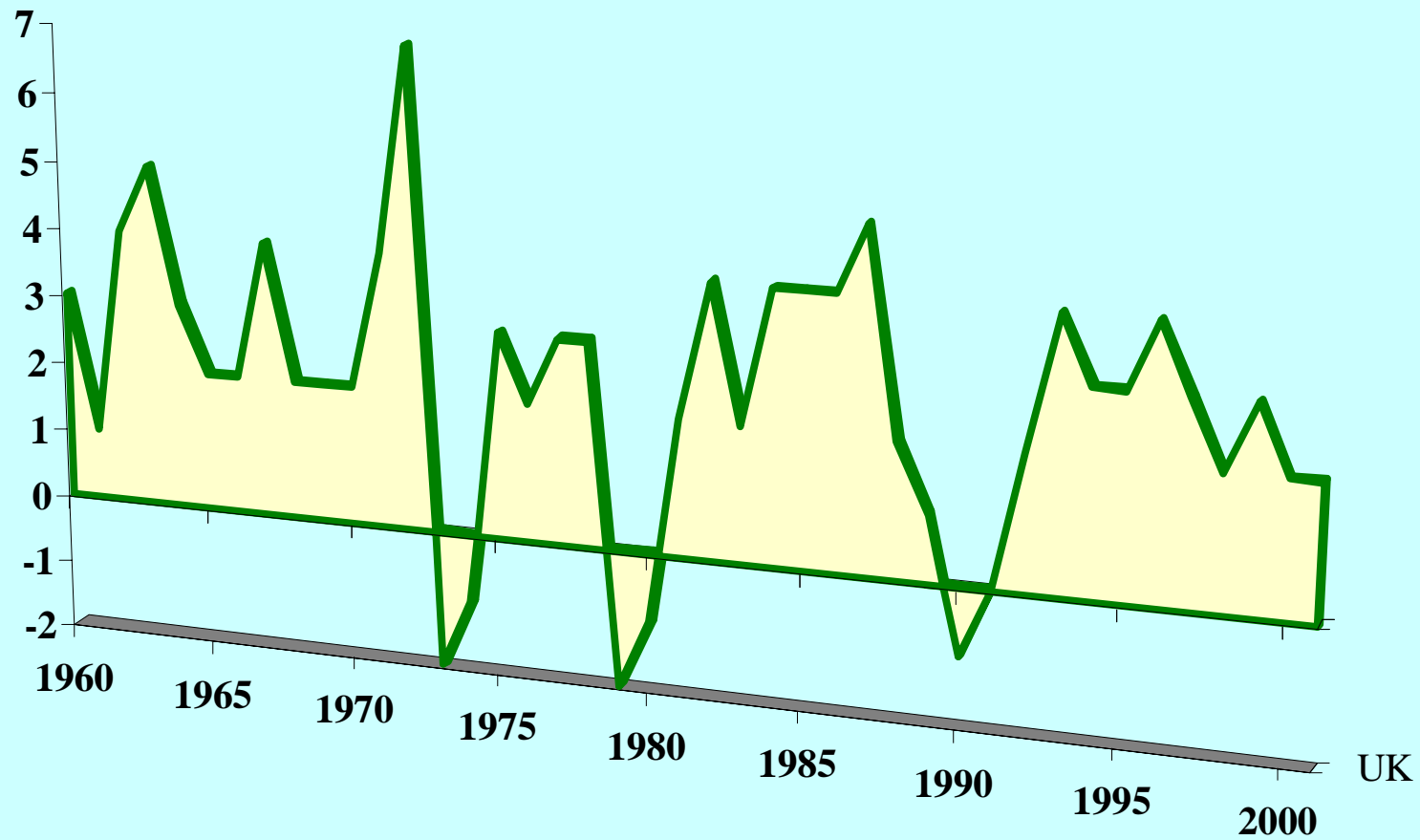
Australia GDP Growth Rate at 1995 Prices



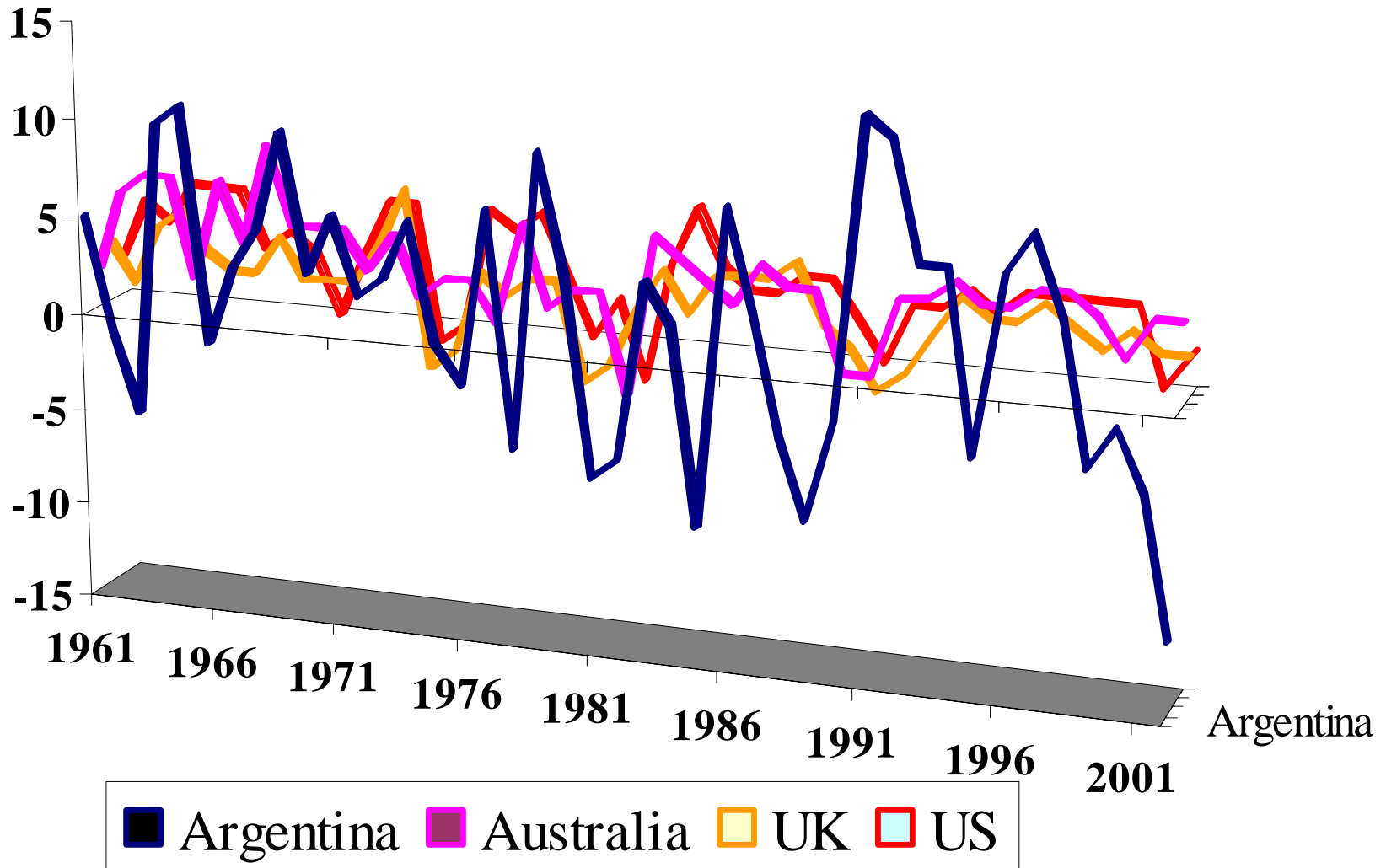
USA GDP Growth Rate at 1995 Prices



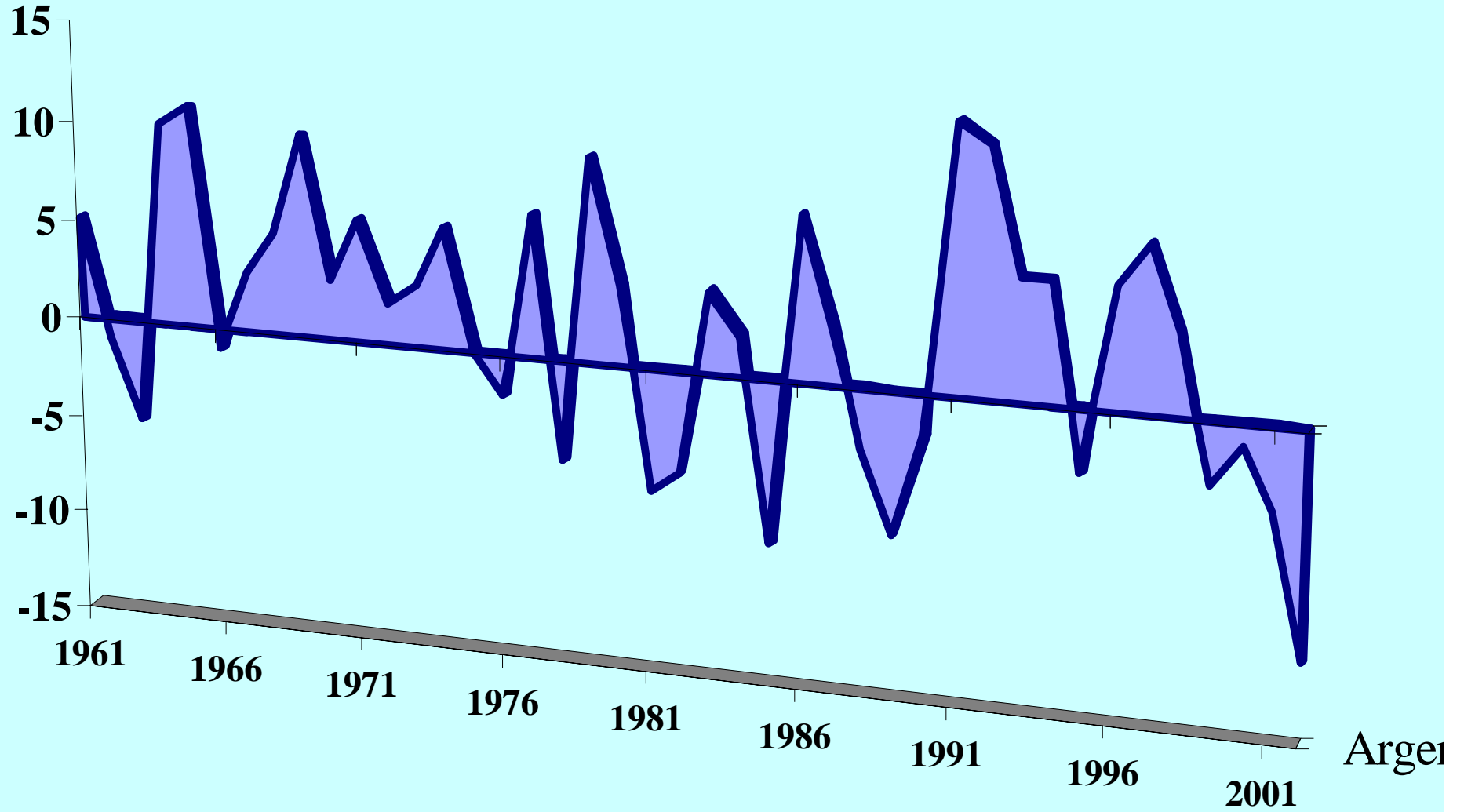
UK GDP Growth Rate at 1995 Prices



GDP Growth Rate at 1995 Prices



Argentina GDP Growth Rate at 1995 Prices



Argentina: Cycles of Growth and Contraction (1971 – 2002)

- Argentina's GDP declined in **15** out of this 32-year period
- In **10** of the 15 contraction years, the fall in output exceeded **4%** a year.
- In **12** of the 17 growth years, GDP expanded by more than **5%** a year

- The Average Annual GDP growth for the period 1971-2002 was 1.3%, i.e., **zero** growth in per-capita terms.
- After falling 11 percent in 2002, GDP will grow 7 percent in 2003
- Argentina's GDP per capita will be about **15%** lower at the end of 2003 compared with 1997.

Argentina: + 17 -15

CHINA: + 31 - 1

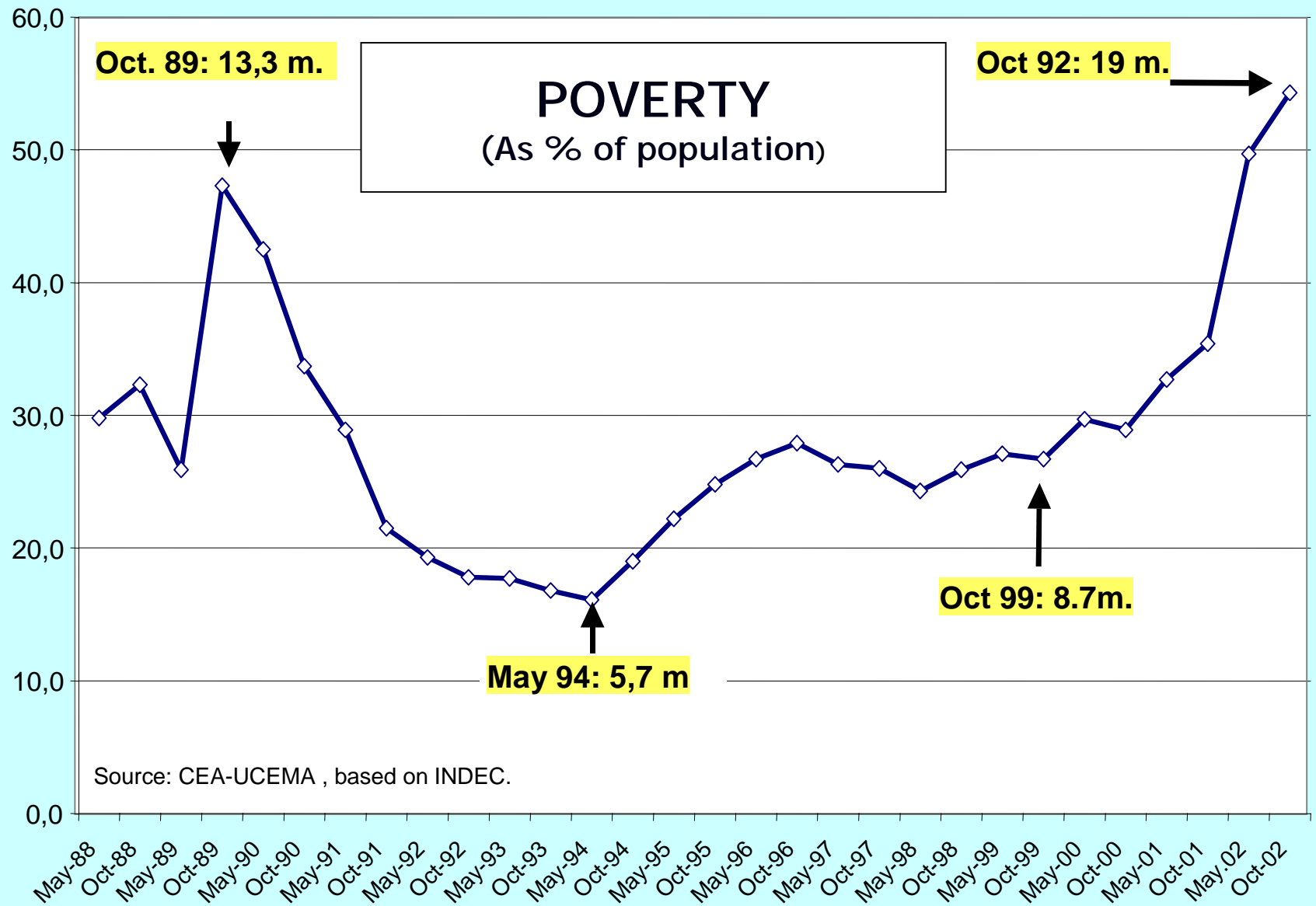
FRANCE: + 30 - 2

CHILE: + 26 - 6

BRAZIL: + 24 - 8

LEBANON: + 21 -11

HAITI: + 15 -17



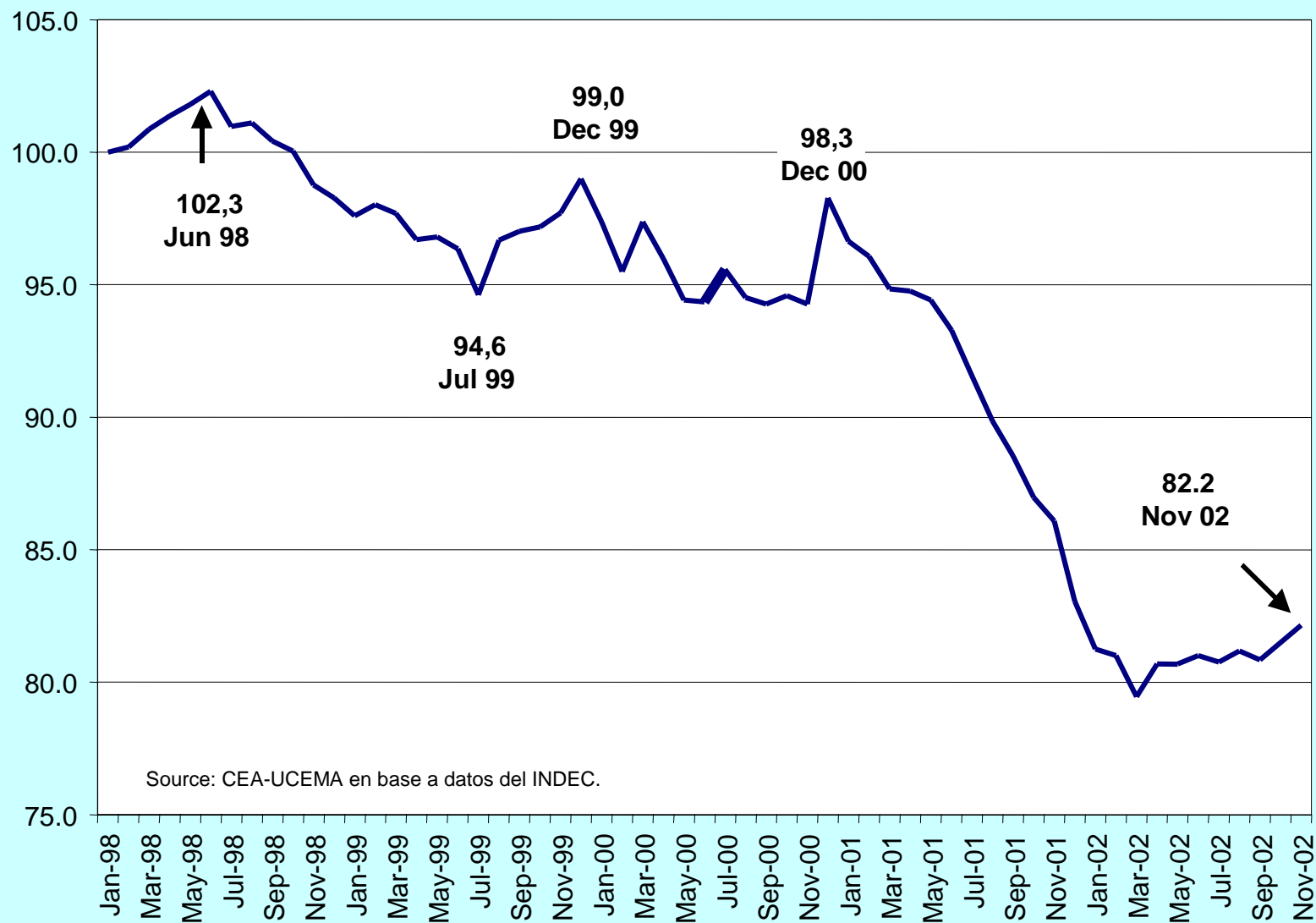
Argentina fell into a trap of high volatility and large fluctuations (quite the opposite to convergence).
It led to a major debacle in 2001-2002.

- What are the causes for the long run volatility?
- How they worked to derail so much the economy in 2001-2?

Causes of the Volatility and Weak Performance:

- **STRUCTURAL** weaknesses
- **MACROECONOMIC** mismanagement

Monthly Gross Domestic Product seasonally adjusted (Jan 98 = 100)

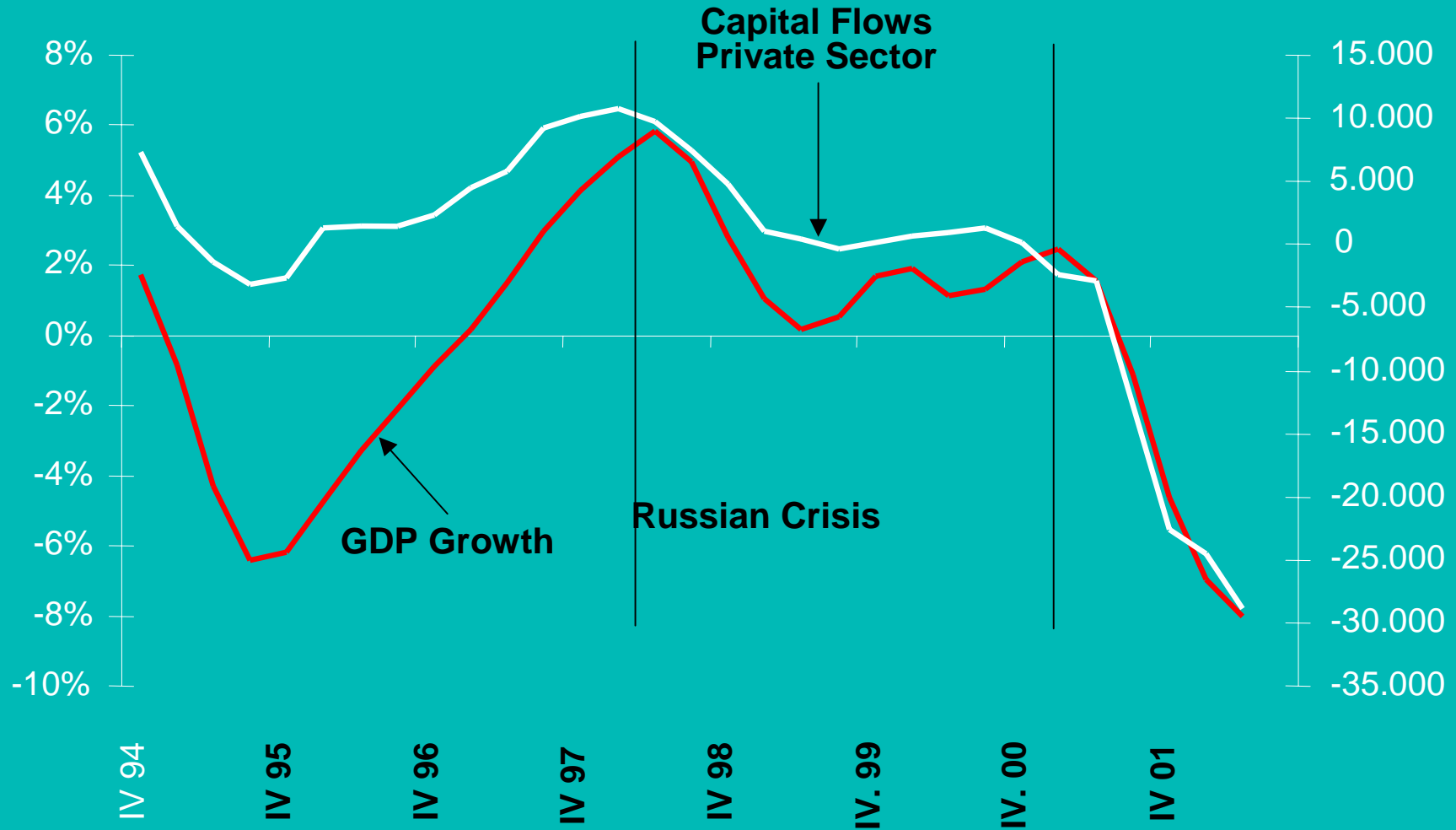


STRUCTURAL weaknesses:

- **External vulnerability:
trade and capital accounts**
- **Institutional frailty**
 - Judicial weakness**
 - Lack of respect for long term contracts (defaults, confiscation, etc.)**
- **Political imbalances -- related to political history, federalism, ideology**

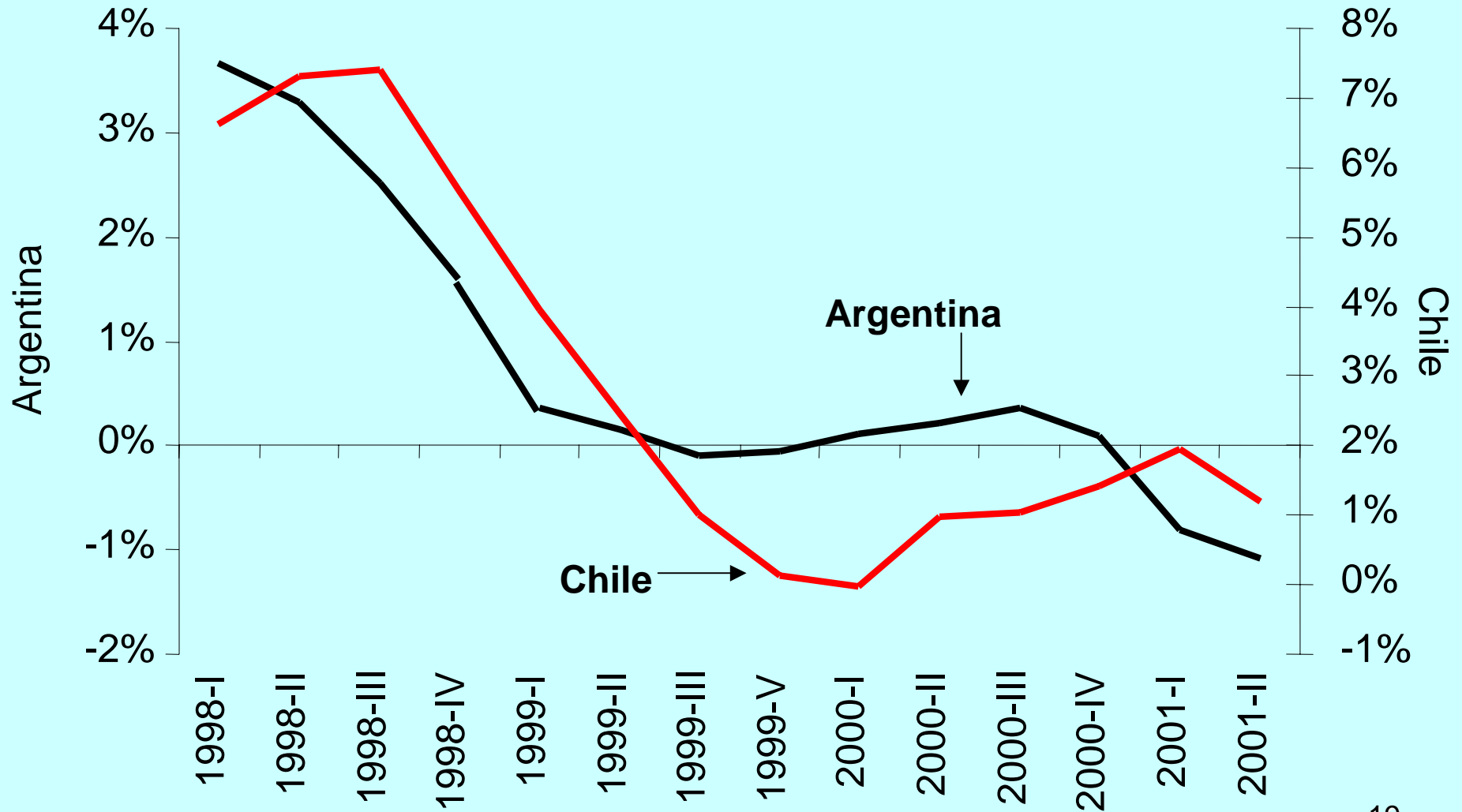
Capital Flows and Economic Activity

(Accumulated 4 quarters - U\$Sm. GDP Cyclical Component)



Sudden Stops in Argentina and Chile

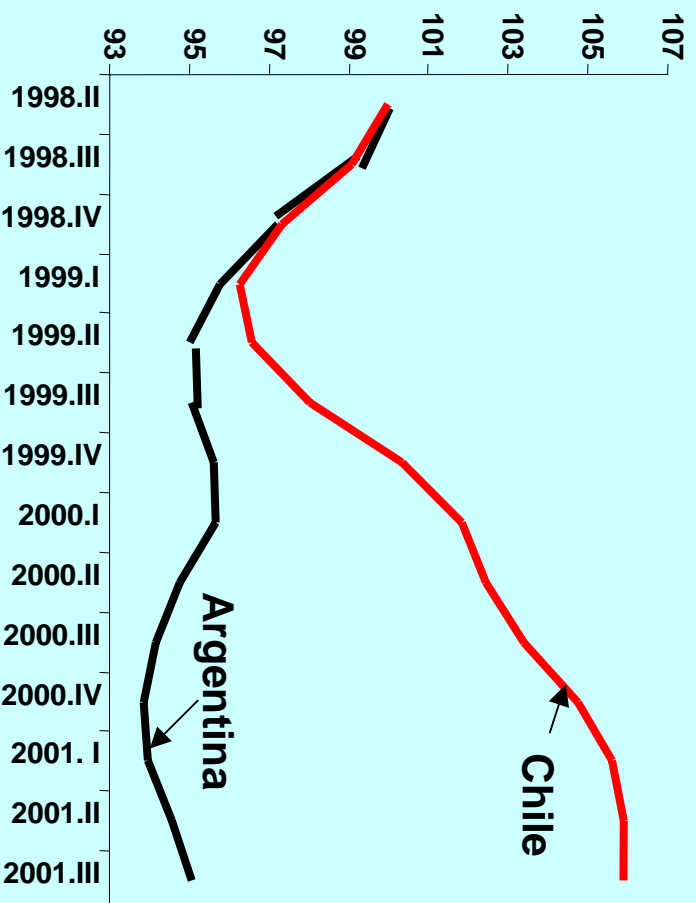
(Private Capital Flows, Percentage of GDP)



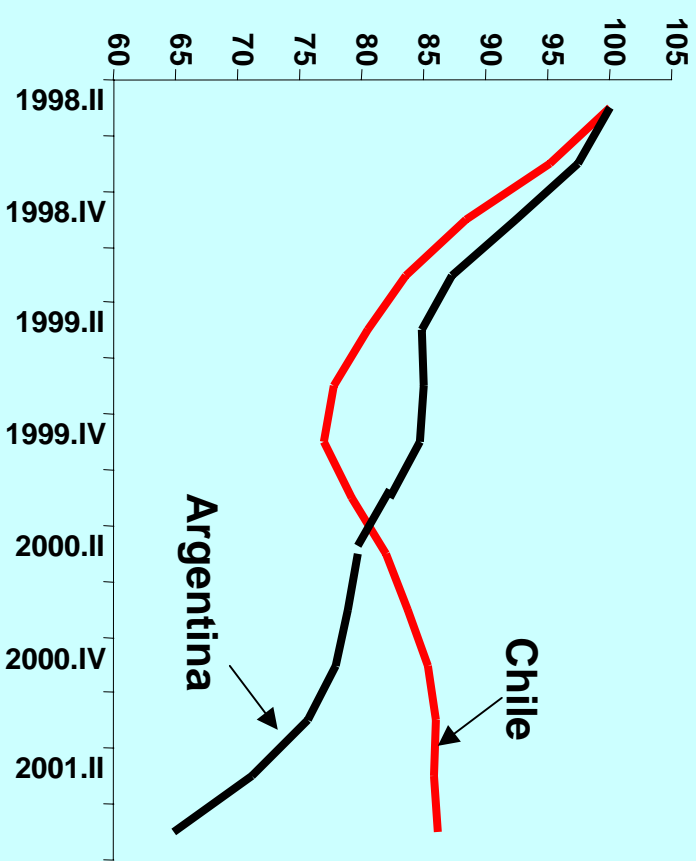
Economic Activity: GDP and Investments

(1998.II=100)

GDP



Investment



Recent Export Performance in Argentina (In thousands of U\$S)

<u>YEAR</u>	<u>2001</u>	<u>2003</u>	<u>CHANGE</u>
Total	26.6	29.4	2.8
Soybean	4.7	8.5	3.8
Fuel	4.8	4.9	.1
Other Exports	17.1	16.0	<u>-1.1</u> (!)
<hr/>			
Soybean Price	\$170	\$230	(Oct. \$269)

STRUCTURAL weaknesses:

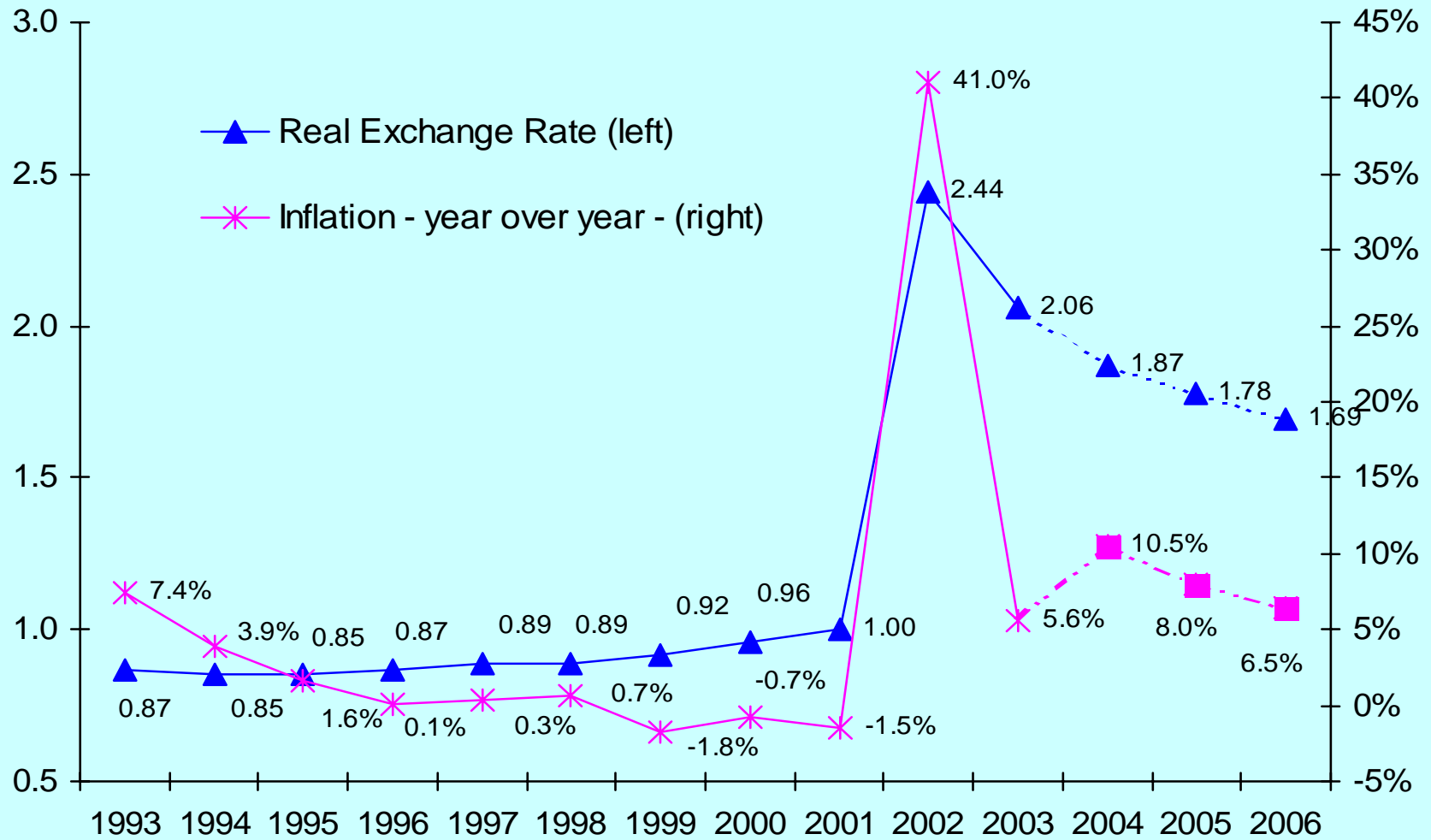
- External vulnerability:
trade and capital accounts
- **Institutional frailty**
Judicial weakness
Lack of respect for long term
contracts (defaults, confiscation, etc.)
- **Political imbalances -- related to political
history, federalism, ideology**

MACROECONOMIC mismanagement:

Largely related to fiscal imbalances

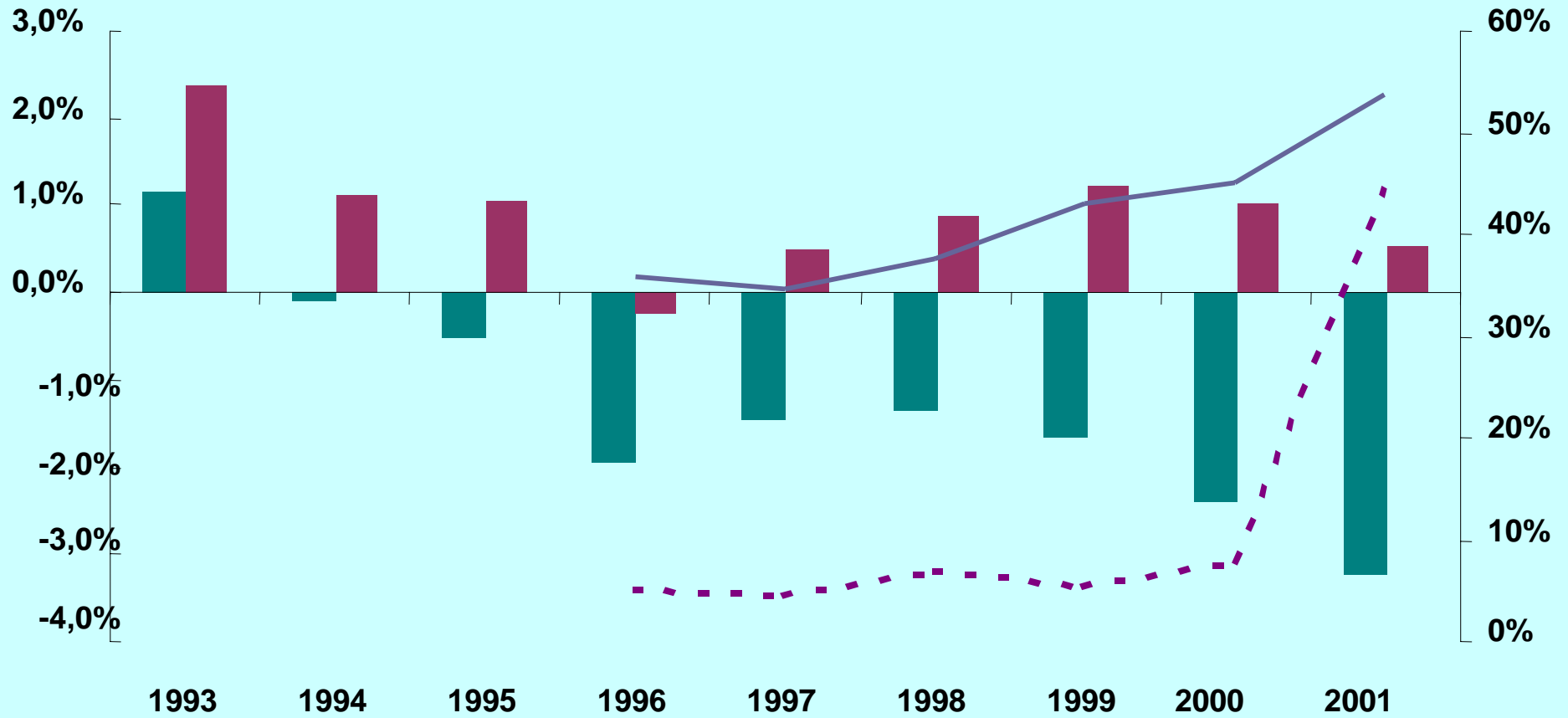
(but many of those are, in turn, related to the structural weaknesses discussed before)

Real Exchange Rate and Inflation



Fiscal misalignment turned the burden of the debt unsustainable

As percentage of GDP

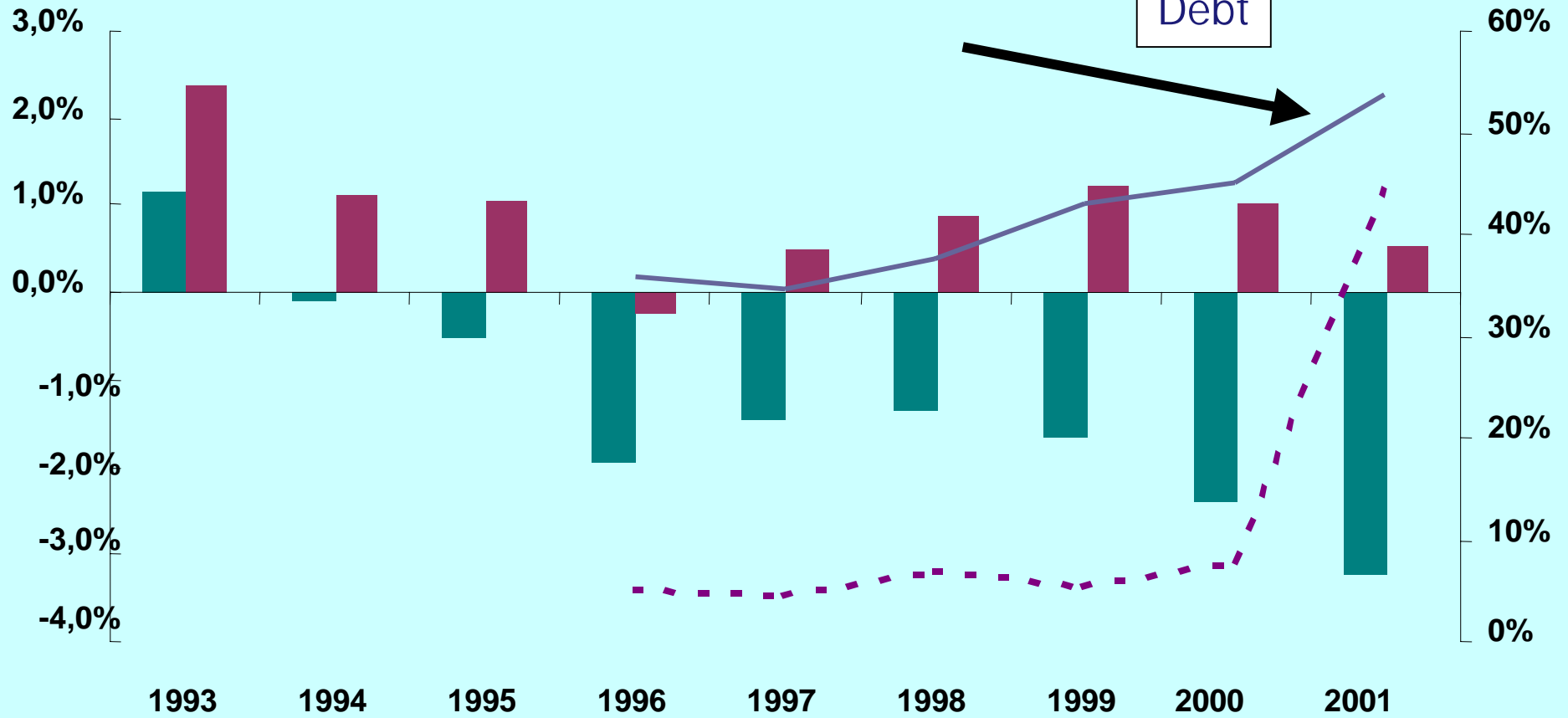


Overall Result
Primary Surplus
Total Debt (2° axis)
EMBI Spread (2° axis)

Fiscal misalignment turned the burden of the debt unsustainable

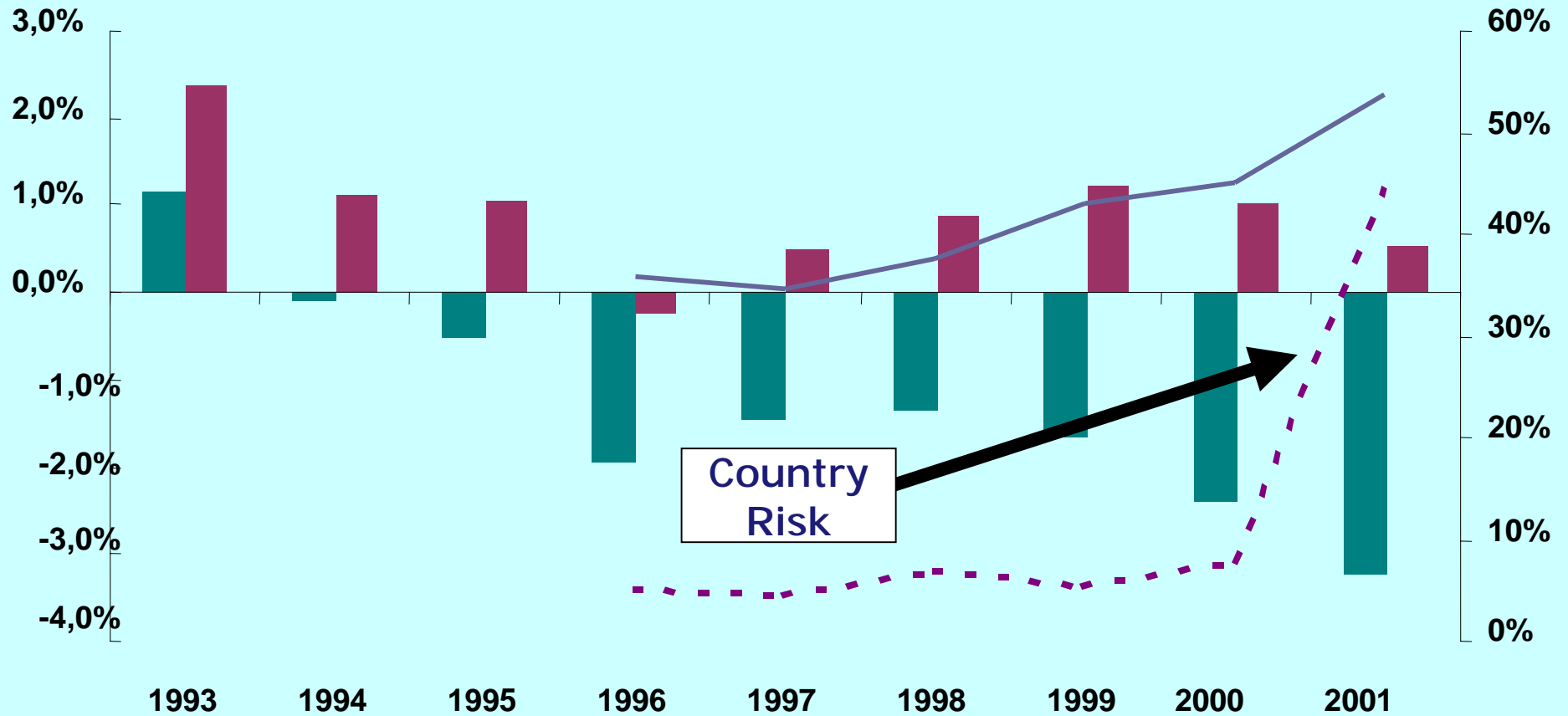
As percentage of GDP

Public Debt

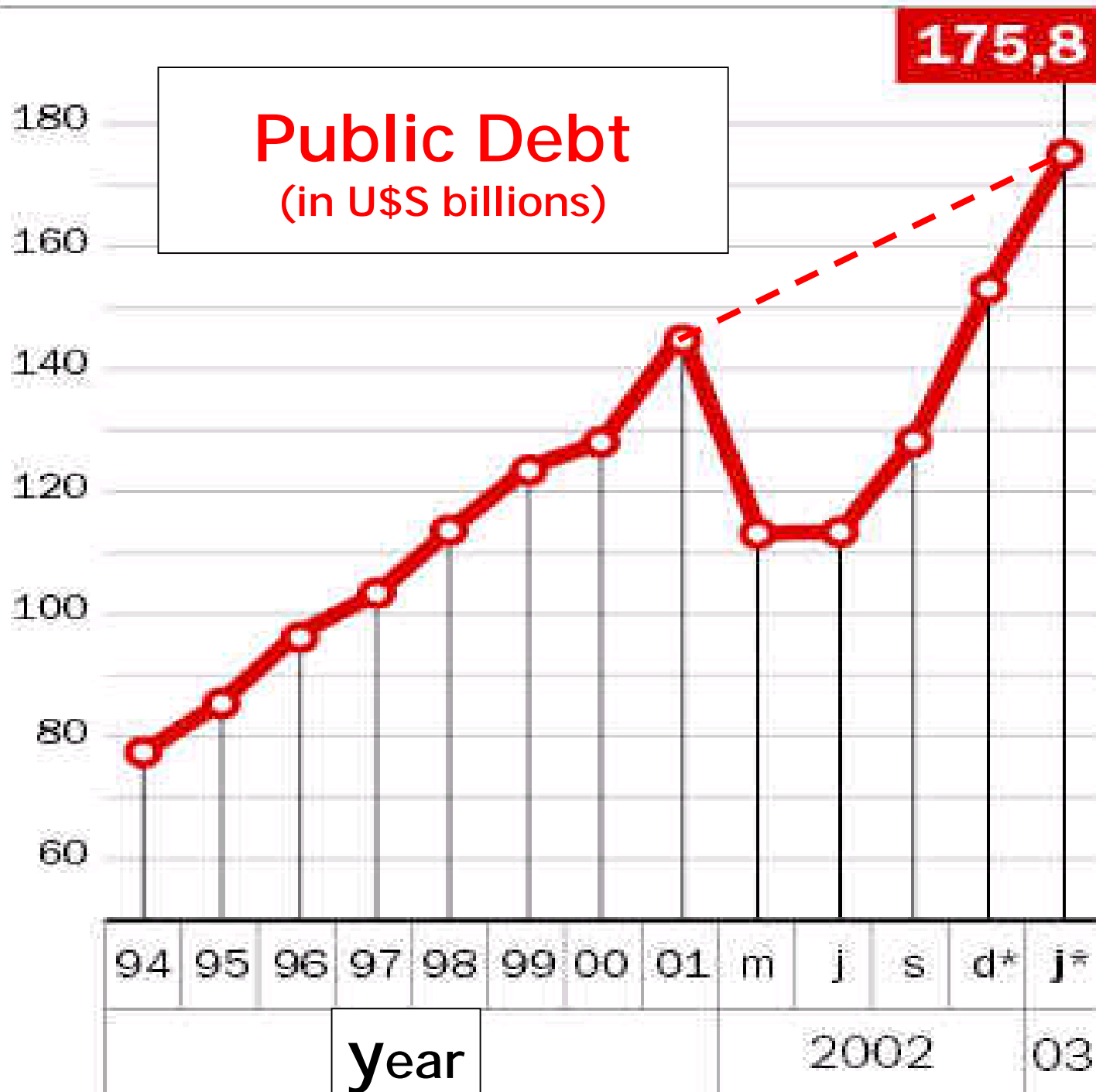


Fiscal misalignment turned the burden of the debt unsustainable

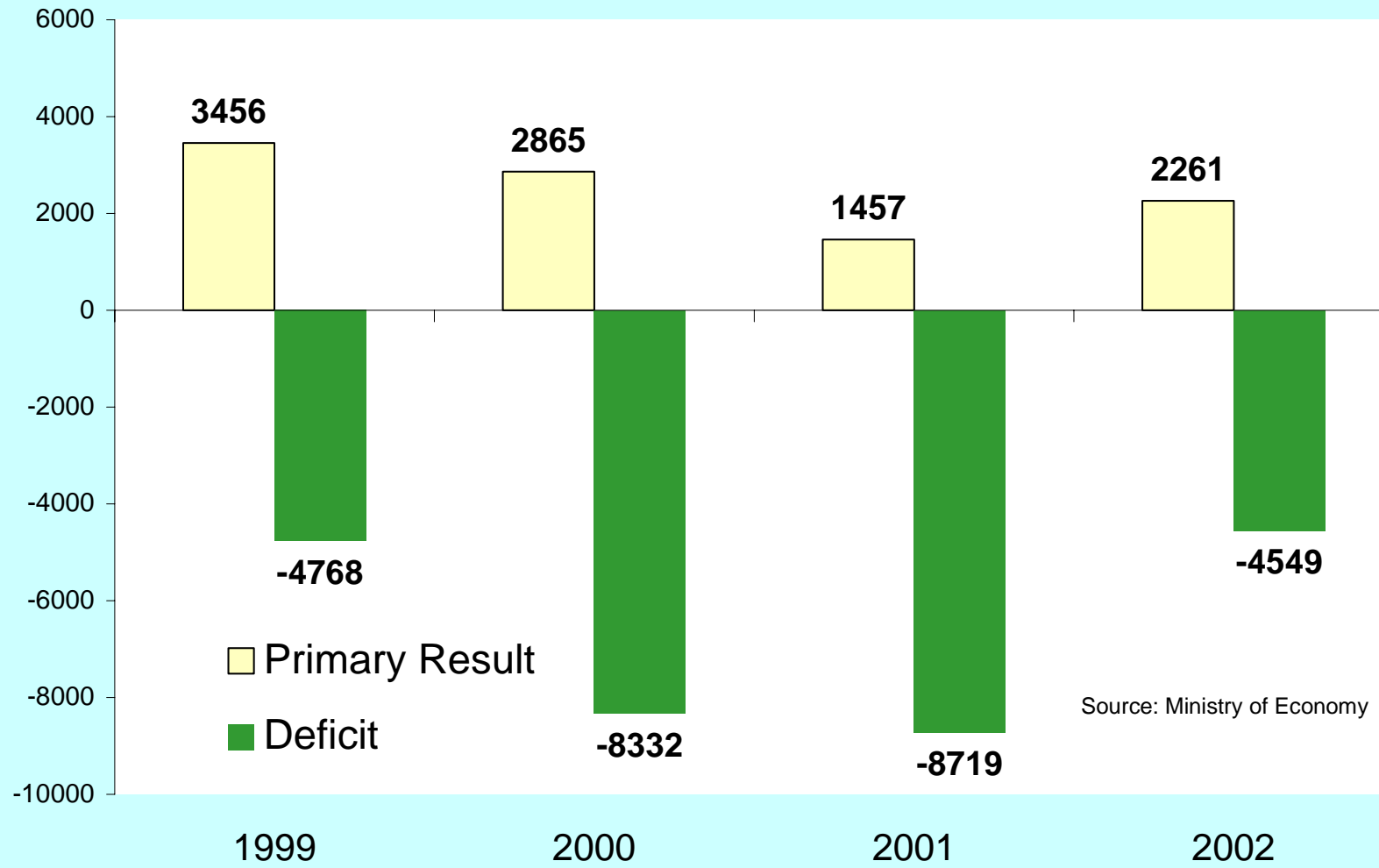
As percentage of GDP



Overall Result Primary Surplus
Total Debt (2° axis) EMBI Spread (2° axis)

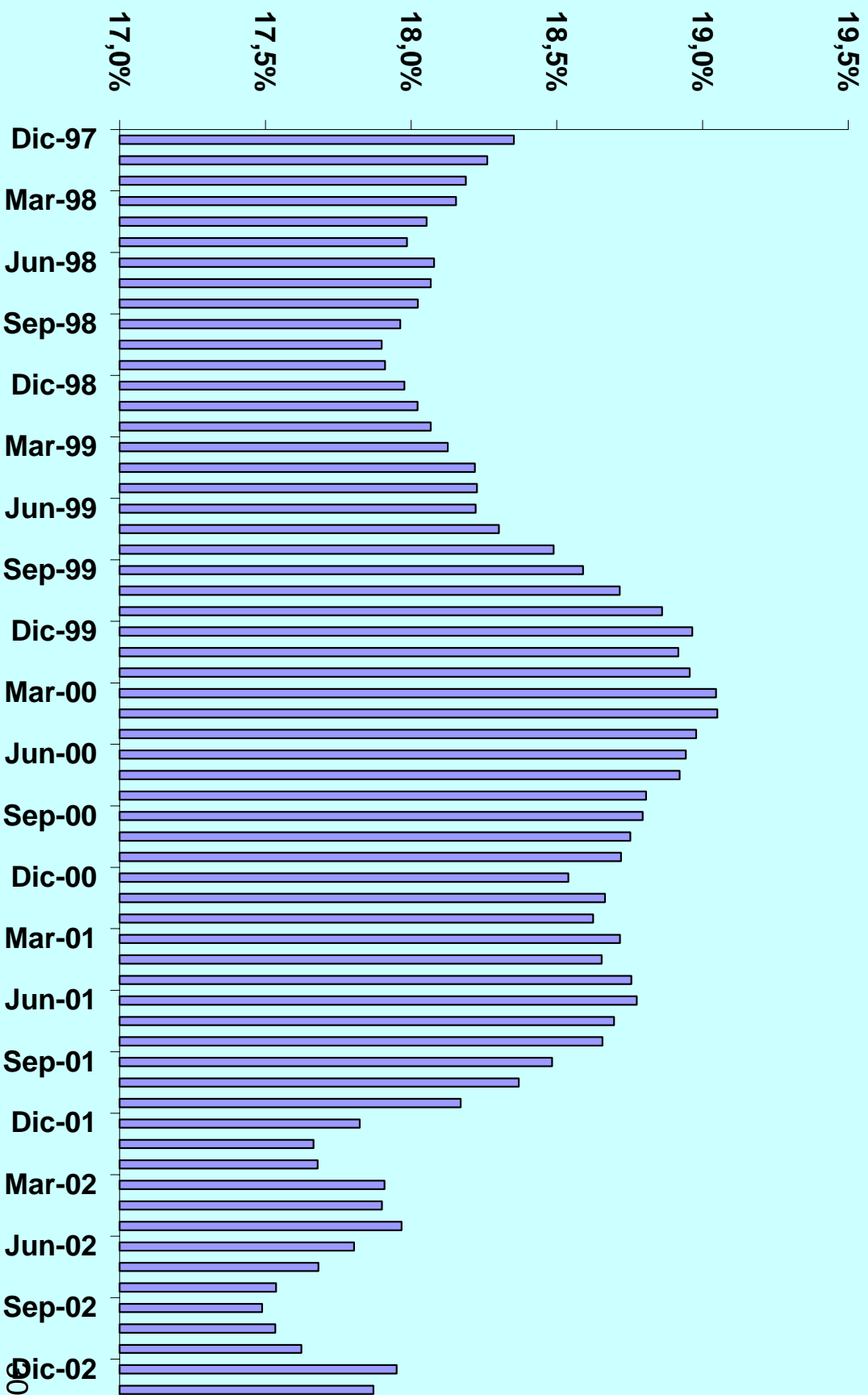


Federal Budget Deficit (\$ millions)

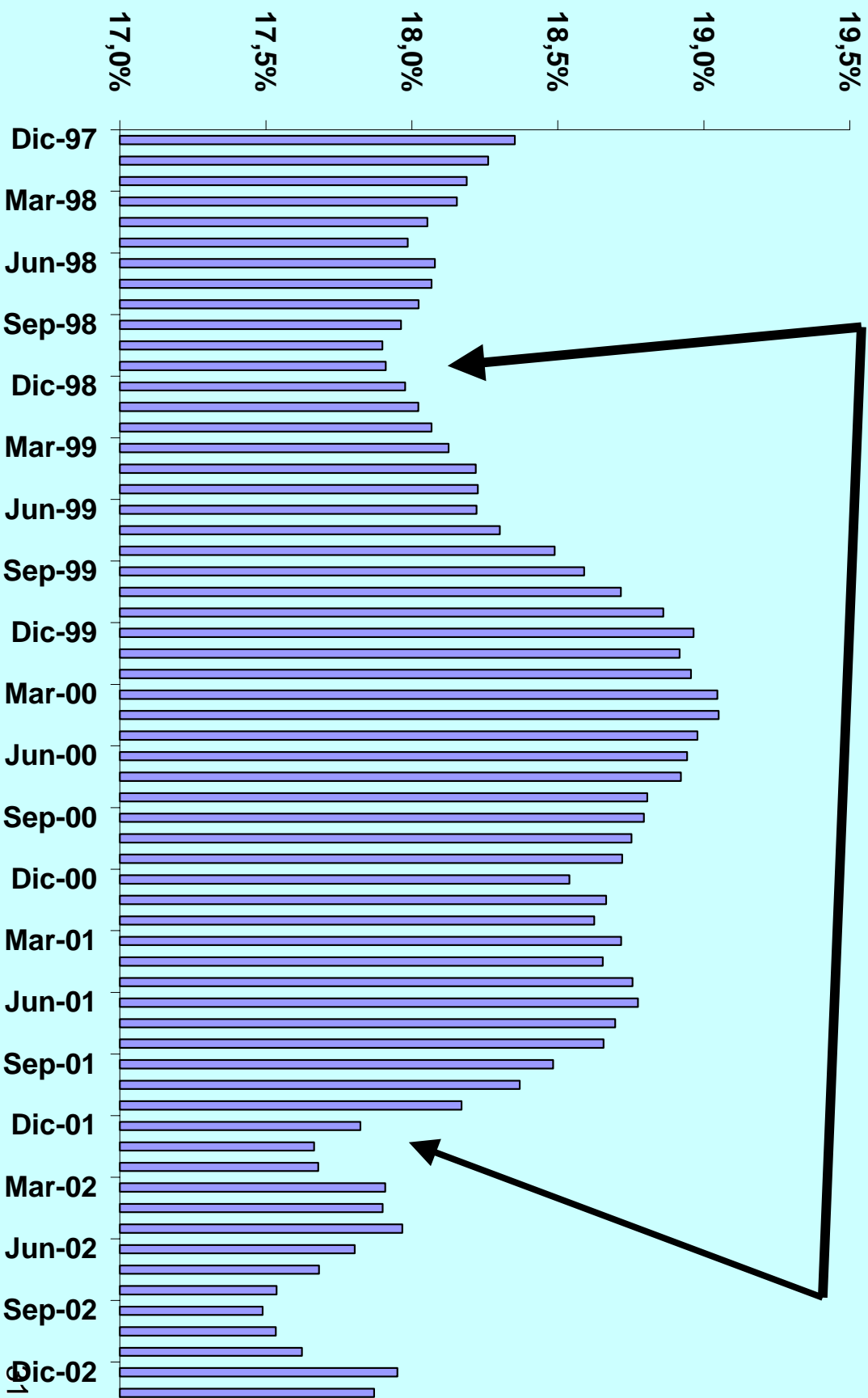


Source: Ministry of Economy

Primary Expenditures as % of GDP (cumulative 12 months)



Primary Expenditures as % of GDP (cumulative 12 months)



A general comment on Convergence in the context of Latin American Countries:

Is the "Center" giving the correct incentives?
Especially in the area of trade and monetary integration, immigration, political support?

Compare EU and the US regarding their immediate periphery