

# **An Economic Review of Argentina's Economy Since 2002 and an Overview of its Current State of Economy**

---

**Rizwan Ahmad**

*School of Professional Studies, Columbia University, New York, Department of Management, London School of Economics, London*

**Abstract:** In the turn of the 20th century, Argentina was seen as one of the most prosperous countries along with European and North American economies and belonged to the elite club of wealthy countries but, since the start of the 21st century, the country's economy has seen many ups and downs as a result of the poor and unsustainable economic policies pursued by various governments. This paper aims to discuss the recent history of Argentina's economy since its default on more than US\$ 100 billion in 2002 and how it recovered in the next few years until the year 2008 following such a default. The paper further discusses the challenges and prospects that faced the economy by the turn of 2008. Next, the paper presents an overview of the economy since 2009 and more specifically, after 2012, and discusses the current state of the economy. Finally, the paper provides policy recommendations based on the past and current state of the economy.

**Keywords:** Argentina's loan default, Argentina's economy collapse, Argentina's economic review, Argentina's current state of economy, Policy recommendations.

## **INTRODUCTION**

In 2002, Argentina defaulted on more than US\$ 100 billion worth of debt but it remarkably recovered, at least somewhat (Lynch, 2007). Some analysts believe that the country made a significant turn-around, others do not believe so. The truth is that Argentina experienced the worst economic downturn of any country since the 1930s (Lynch, 2007). As this author argues, Argentina's recovery came after "stiffing international bondholders intensified the worst economic downturn any developed country had experienced since the 1930s, beggared a prosperous middle class and plunged more than half the population below the poverty line" (Lynch, 2007, pp. n.a).

Argentina did it by defying conventional wisdom and the more common practices in the economic world. They taxed imports, they froze certain key prices, and they stayed away from the International Monetary Fund (Lynch, 2007). Instead they borrowed heavily from Venezuela (Lynch, 2007). By practicing what are considered unorthodox practices in the economic world; Argentina turned itself into one of the fastest growing economies in the Western Hemisphere (Lynch, 2007).

Argentina's financial crisis began in the 1990s under President Carlos Menem who opened trade, a good thing, but who also linked the Argentinian peso to the US dollar at a 1:1 ratio (Lynch, 2007). The economy grew but due to the ratio, inflation soared, at one point, nearly 5,000 percent and when the peso-dollar ratio had to be abandoned, the Peso plummeted (Lynch, 2007). People, businesses, and the country were left with loans and other debts tied to the dollar, which they could not pay (Lynch, 2007).

## RECENT HISTORY OF ARGENTINA'S ECONOMY (2002-2008)

When the new President, Nester Kirchner, was elected in 2003, he puts into effect the taxes on exports and on financial transactions (Lynch, 2007). The peso- to- dollar ratio was established as a 3-to-1 rate, i.e. three Pesos to one US dollar (Lynch, 2007). These actions immediately increased shipments but it also protected local businesses and industries by making imported products more expensive (Lynch, 2007).

In December 2007, Christina Fernandez de Kirchner was elected President following her husband (Economist Intelligence Unit, 2008a; Lynch, 2007). The new President de Kirchner continued most of her husband's economic policies although also introduced new legislation. Table 1 gives more accurate picture of the past state of Argentina's economy since 2003 until 2008.

**Table 1. Economic Indicator Table (2003 – 2008)**

Indicators	2003	2004	2005	2006	2007	2008
GDP Growth Rate (Annual %)	8.80	9.00	9.20	8.50	8.70	6.80
Exports (US\$ Millions)	34,439	39,864	47,024	54,547	66,088	82,111
Imports (US\$ Millions)	18,827	27,930	34,939	41,120	53,353	67,536
Balance of Trade (US\$ Millions)	15,612	11,934	12,085	13,427	12,735	14,575
Trade Surplus (% of GDP)	12.2	7.80	6.60	6.30	4.90	4.50
Current Account Surplus (% Of GDP)	6.40	2.10	2.90	3.60	2.70	2.20
Primary Fiscal Surplus (% of GDP)	2.30	3.90	3.70	3.50	3.20	3.10
Gross National Savings (% of GDP)	19.60	20.60	23.70	26.40	26.60	26.70
Foreign Direct Investment (US\$ Millions)	1,652	4,125	5,265	5,537	6,473	8,853
Foreign Reserves (US\$ Millions)	14,119	19,646	28,077	32,037	46,176	46,109

*Note:* Data from Prosper AR (2008) based on Argentinean National Institute of Statistics and Census, Central Bank's Market Expectation Survey (REM) and International Monetary Fund.

The Table 1 briefly gives an idea about economic status of Argentina. The GDP growth rate was 8.60% on an average between 2004 and 2007. It came down a little in 2008. Exports doubled in the five years between 2004 and 2008, hitting historical high of around US\$ 65 billion in 2007. Five years of twin surpluses (fiscal and current account) contributed to growth sustainability. The same source indicated that the inflation rate was in decreasing trend whereas purchasing power parity of people had risen during the period of those five years. Similarly, the compounded annual growth rate was at 8.8 percent during the period which was very close to Indian (8.9 percent) and Chinese (10.7 percent) during that period, the two fastest emerging economies of the world. According to the same source, further investment increased to 24.3 percent, higher than that of Brazil and Chile during that period. Current surplus rose to 2.80 percent of GDP in 2007, albeit 2.20 percent of GDP in 2008. Doubling of export, production and all the above mentioned positive performance of Argentina during the period between 2004 and 2008 guaranteed sustainable growth in years ahead. Moreover, Argentina is the founding member of WTO, which means its philosophy of open economy was an attraction to invest. Industries of Argentina was doing extremely well during the period. Industries of Argentina was and even now is well diversified in technology, producing differentiated products, agro-based products like soybean oil, pears etc. Overall, Argentina seemed very lucrative and one of very important emerging economies with fewer risks involved in it (Prosper Ar., 2008). Please refer to the Appendix A at the end of the report to see the annual and quarterly graphical representations of variations between 1995 and 2008 in terms of GDP, Inflation, Exchange rate and Balance of payments.

Another source in Table 2 compares different key indicators between the years 2002 and 2008 as shown further.

**Table 2. Unemployment and Poverty Headcount Ratio (US\$1.90 PPP a day) (% of Population) (Between 2002 and 2008).**

Key Indicator	2001	2002	2003	2004	2005	2006	2007	2008
Unemployment (%)	19.20	22.50	17.30	13.60	11.60	10.20	8.50	7.90
Poverty (PPP) (%)	9.40	14.00	7.00	5.40	3.90	3.30	2.90	2.60

*Note:* Data from Knoema, 2018, IMF: World Economic Outlook (WEO), Database.

As we observe that the unemployment rate in 2002 was 22.50 percent, which declined to almost 8.00 percent in 2008. And poverty based on purchasing power parity (PPP) declined to 2.60 percent in 2008 from 14.00 percent in 2002. We see that both the unemployment and poverty (PPP) rate rose drastically between 2001 and 2002. This could be because of the country defaulting on debts during that period. However, later in terms of both unemployment and poverty (PPP) rate, we see a decreasing trend between the years 2002 and 2008. However, another source points out that foreign trade increased to 39.00 percent of GDP in 2007 from 28.00 percent in 1990s and GDP was US \$ 261.00 billion in 2007, which was equal to US\$ 6,530.00 per capita (Travel Document System, Inc., 2009). The government also held an estimated reserve in excess of US\$ 45 billions as of November 2008 (Travel Document System, Inc., 2009).

The policies adopted by both Presidents “Kirchner” were interventionist in nature, particularly in infrastructure and energy (Economist Intelligence Unit, 2008a). This resulted in foreign direct investment averaging only about 2.00 percent (Economist Intelligence Unit, 2008a). President de Kirchner was also perceived as embroiled in a battle with farmers (Newbery, 2008). Fertilizer prices doubled, diesel prices increased by 30.00 to 50.00 percent, and with the new taxes on crop exports, farmers paid about 55.00 percent of their income for taxes (Newbery, 2008). Facundo Gallardo, a farmer in a remote town who grew soybeans and corn, said that the president and her husband “hate us” (Newbery, 2008, pp. n/a). Here “us” means farmers. This was one of the reason economists believed “Argentina to be the most vulnerable economy in Latin America in 2007 or 2008” (Newbery, 2008, pp. n/a). Other reasons for this statement had to do with rising inflation and rising debt with a slowing economy (Newbery, 2008; Weisbrot, 2008). These same economists estimated Argentina’s real inflation rate at 25.00 percent and not the 9.00 percent the government claimed (Newbery, 2008). The same economist claimed that the economic growth rate in 2009 would be a mere 2.5 percent (Newbery, 2008).

When the President asked the Congress to raise the taxes on exported soybeans from 35.00 percent to 50.00 percent, the farmers revolted (Newbery, 2008). They organized and blocked highways, streets, drove tractors through cities, banged pots and pans and withheld their crops for four months (Newbery, 2008). When negotiations continued to fail for more than three months, the President asked congress to approve the tax-increase by a decree, it was a 50-50 split vote in the senate but Vice-President, Julio Cobos, used his vote to break the tie and voted against the President’s request (Newbery, 2008). It was a hard defeat to the Kirchners who had been so unpopular with the population.

Economists inside and outside Argentina commented that the Argentinian government always just spent money without curtailing the spending and this led the country into the most extreme recession a decade ago and it could happen again if drastic changes were not made (Economist Intelligence Unit, 2008a; Lynch, 2007; Newbery, 2008). The country experienced shortages in energy and prices were rising on commodities. While there were years the country could depend on trade surpluses, that was no longer true (Newbery, 2008). Compounding all of this was the fact that many of the creditors, whom the country defaulted on, were still trying to get the payment. For instance, The Paris Club was calling for US\$ 6.40 billion in unpaid debt and those who held an aggregate total of more than US\$ 20.00 billion in bonds were also trying to get their money back (Newbery, 2008). The country’s actual debt in 2008 stood at 51 percent of GDP (Newbery, 2008). This was an excessive ratio of debt and was extremely difficult to pay off. This explained why few financial investors would invest in a nation whose government held this level of debt. The Table 3 depicts the debt percentage of GDP from 2001 to 2008.

**Table 3. Debt as percentage (%) of GDP, 2001-2008.**

Year	Debt % GDP
2001	45.00
2002	143.00
2003	110.00
2004	115.00
2005	62.00
2006	58.00
2007	52.00
2008	51.00

*Note.* Data from Weisbrot, 2008, pp.2

During these years, debt as a percentage of GDP rose most significantly between 2001 Q2 and 2002 Q4 during which it peaked at 143.50 percent of GDP because of the economic crisis in 2002 and its most significant drop was between 2004 Q4 and 2005 Q1 during which the debt as a percentage of GDP dropped from 121.70 percent to 66.20 percent (Weisbrot, 2008). This was the result of debt restructuring by the government (Weisbrot, 2008). While these data are somewhat positive, the country remained at risk for investors for the reasons stated earlier.

The planned and estimated payments as a ratio to GDP between the years 2009 and 2018 are reflected in Table 4.

**Table 4. Public Debt Service in percentage (%) of GDP.**

Payments	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Principal	4.87	2.92	3.42	2.34	1.83	1.11	2.06	3.39	1.50	0.35
Interest	1.44	1.27	1.11	0.96	0.85	1.01	0.94	0.76	0.64	0.58
Total	6.31	4.19	4.53	3.30	2.68	2.12	3.00	4.15	2.14	0.93

*Note:* Data from Weisbrot, 2008, pp. 3

To make these percentages more understandable, in 2009, Argentina was supposed to make debt payments equal to US\$ 18,232.90 millions and, in 2018, Argentina was supposed to pay US\$ 3,806.50 millions (Weisbrot, 2008). These payments did not include many of the loans they defaulted on, in 2001, and there were a number of legal actions from creditors who were trying to recover the full amount of credit extended (Weisbrot, 2008). Despite the taxations, Argentina had a trade surplus equal to 5.1 percent of GDP (Weisbrot, 2008). It was also estimated that the country had an account surplus of 2.2 percent of GDP (Weisbrot, 2008). This all meant they would have most likely met all their obligations for 2009 but it may have required some rollover of some debt and may also have required another loan from Venezuela (Weisbrot, 2008). However, citing a number of economists, Weisbrot (2008) said that there was no reason to believe that Argentina's economy would not continue to improve. However, these comments were made prior to the meltdown in the US that was being echoed across the globe. Even so, on December 18, 2008, Fitch downgraded Argentina's currency rating to a "B-" (Business Wire, 2008). This was likely to negatively impact the country's access to loans and even foreign direct investment.

### **Challenges And Prospects Facing Economy (2002 – 2008)**

Argentina was challenged with a slowing economy and potentially rising inflation rates as well as the financial meltdown in the world when President Cristina Fernandez de Kirchner was Argentina's president. President de Kirchner responded to these challenges and potential crises in early December 2007 when she introduced her anti-crisis stimulus plan to the country (Economist Intelligence Unit, 2008b; Garcia, 2008). As already noted, she consistently introduced controversial ideas to stabilize the financial status of the country and she never stopped doing so. The stimulus plan included jobs. In fact, it more than doubled the existing public sector jobs from 362,000 to 770,000 (Economist Intelligence Unit, 2008b).

The plan provided incentives for companies to re-hire persons they had laid off and also to identify the employees they paid 'under the table' (Economist Intelligence Unit, 2008b). Companies who complied paid a lower tax rate (Economist Intelligence Unit, 2008b).

One of the very controversial moves to meet the challenges was to nationalize private retirement funds (Economist Intelligence Unit, 2008b). In effect, this gave the government the US\$ equivalent of US\$ 29.00 billion (Economist Intelligence Unit, 2008b). While it was true that this transfer was a safer place for these funds than in the volatile market, it was also true that the President intended to use some of this money to finance a number of government programs (Economist Intelligence Unit, 2008b). Another move to meet the stiff challenges that most nation were faced during that time was that the President brought legislation that required funds which are being deposited outside the country to be declared and eventually returned to the country (Economist Intelligence Unit, 2008b). Argentina suffers from tax evaders just as every other country does.

The Argentinian government also dealt with the challenge of overcoming a lower financial rating for their currency (Business Wire, 2008). The Fitch report reasoned that the country was not responding with policies that addressed the international financial crisis that existed (Business Wire, 2008). In 2008, economists forecasted an economic growth of only 1.60 percent in 2009 and predicted that the government's access to the new retirement funds, it had transferred to the treasury, will probably get the country only through the next 12 to 18 months (Business Wire, 2008). The several years of swift economic growth of Argentina were because of an "export bonanza and historically high prices for soybeans, but the price of this product was at about US\$ 300.00 per ton towards the end of 2008, half of what it was in June 2008" (Economist Intelligence Unit, 2008b, pp. n.a). And, since Argentina was locked out of international credit markets, it found itself in quagmire and hence struggled hard to make payments on its US\$ 28.00 billion in debt, which was about to come due in the next three years. There were some who feared that Argentina might fall into default again in 2009 if the government was not able to fulfill its financing needs. The finance secretary did not assuage the fear of such uncertainties when he conveyed the federal government about its financing requirements in the order of US\$ 16.50 billion for 2009. The budget proposal, submitted to congress in mid-September 2008, predicted a primary surplus of US\$ 8.00 billion for 2009 (although this carried a downside risk), which left a gap of US\$ 8.50 billion (Economist Intelligence Unit, 2008b).

The President also lowered export taxes on both wheat and corn by 5.00 percent (Garcia, 2008). This was a good move on the President's part because farmers switched from growing a lot of wheat to lot of soybeans, which yielded higher profits for them in the market (Garcia, 2008). It was assumed that if this trend continued, the country would eventually be faced with a shortage of wheat, a stable crop, and would have to import it.

Another action taken by the government, in an effort to address some of the financial challenges, was to purchase "Aerolineas Argentinas", which was the country's largest airline and was owned by Marsans, a Spanish company (Garcia, 2008). These negotiations were rather interesting with Marsans telling the Argentinian government that the airline was worth US\$500.00 million and the government insisting Marsans to pay them US\$ 600.00 million to take the failing airlines off their hands (Garcia, 2008). It seemed that the airline was simply nationalized without any exchange of money. Next, the government announced a "stimulus package" worth US\$ 21.00 billion along with an "economic stimulus package" worth US\$ 3.80 billion that would include loans for industry, car manufacturers and small businesses. These stimulus packages were supposed to be funded with revenue generated in pension funds worth US\$ 26.00 billion that the government had recently appropriated (Garcia, 2008). Experts and analysts were divided on how successful the stimulus plan would be in facing enormous financial challenges. In large part, most did not think it would have positive effects in the long-term (Latin America Advisor Newsletter, 2008). There were likely to have some positive outcomes in the short-term but they might diminish quickly (Latin America Advisor Newsletter, 2008).

One of the domestic challenges Argentina faced was the lack of tax-collection. Turner (2008) explained that in Argentina avoiding or delaying taxes was often described as a cultural phenomenon. The government failed to enforce its tax-laws, which left the country without an adequate estimate of tax-revenue that, could be used to build the budget. However, collection was far better than it was in 2002 though, when 35.00 percent of taxes owed were not paid and 20.00

percent of taxes owed were not paid in 2007 (Turner, 2008). Individuals and companies, paying more of their assessed taxes, were partially due to the increased revenue they were receiving (Turner, 2008). If the revenue declined as it was expected to do in 2009, the government would once again experience fewer businesses paying their taxes. Even in the late fall of 2008, businesses were not paying taxes in order to pay their employees (Turner, 2008). Many were forced to take out loans at an exorbitant 40.00 percent interest rate (Turner, 2008).

### Overview Of Recent And Current State Of Argentina’s Economy

Given the state of the economy in 2008, the Table 5 reflects Key Economic indicators from 2007 to 2012.

**Table 5. Key Economic Indicators from 2007 to 2012.**

Key Indicators	2007	2008	2009	2010	2011	2012
Real GDP Growth %	8.70	6.00	3.50	3.80	4.70	4.50
Consumer Price Inflation, Average %	8.80	9.30	10.40	8.70	7.70	7.40
Budget Balance, % of GDP	1.20	0.70	0.30	0.00	-0.30	-0.90
Current-Account Balance, % of GDP	2.80	3.10	2.40	2.30	1.90	1.70
Lending Rate, Average %	11.10	13.60	13.00	11.00	9.00	8.50
Exchange Rate, Pesos: US\$, Average	3.10	3.10	3.20	3.30	3.40	3.40

*Note:* Data from Economist Intelligence Unit, 2008a

The Table 5 demonstrates that the real GDP, which was negative in 2003, jumped to 8.70 percent in 2007 and came down to 6.00 percent in 2008. It does represent a downturn in the middle, which is a result of the economic crisis in the United States (Economist Intelligence Unit, 2008a). Interest rates were still high but it was lower in 2010. Real GDP growth was a respectable 8.70 percent in 2007, and an adequate rate of 6.00 percent in 2008 however it dropped significantly over the next three or four years.

However, when we combine the historical data since 2013 combined with projections for few years, the Table 6 reflects the key economic indicators representing the current state of the economy.

**Table 6. Key Economic Indicators (2013 - 2020).**

Economic Indicators	2013	2014	2015	2016	2017	2018	2019	2020
GDP (US\$ Billion)	614	560	652	554	644	670	708	751
Fiscal Balance (% of GDP)	-1.90	-2.40	-3.90	-5.90	-6.00	-3.90	-3.50	-3.00
Public Debt (% of GDP)	43.50	44.70	52.60	53.30	57.10	53.30	53.30	53.40
Current Account Balance (% Of GDP)	-2.10	-1.60	-2.60	-2.70	-4.80	-2.90	-2.90	-3.00
Trade Balance (US\$ Billions)	1.50	3.20	-3.00	2.10	-8.50	-0.10	-0.80	-1.40
Exports (US\$ Billions)	76.00	68.40	56.80	57.70	58.40	65.20	69.40	74.10
Imports (US\$ Billions)	74.40	65.20	59.80	55.60	66.90	65.40	70.20	75.50
Foreign Direct Investment(US\$ Billions)	2.60	1.70						
External Debt (% of GDP)	25.90	29.00	26.10	34.70	36.20	33.30	34.00	33.70
Exchange Rate (vs. US\$)	6.52	8.46	12.94	15.86	18.60	20.33	21.78	23.06

*Note:* Data from Focus Economics (2019, March 12), Argentina Economy Data and Focus Economic Outlook (2017), Country in Focus (Argentina), pp. 24.

It is evident from Table 6 that GDP (US\$ billion) is on an ascent since 2013 when it was US\$ 614 billion, with a minor fall in 2014 and 2016, and jumping again to US\$ 644 billion shows that Argentina is one of the largest economies in Latin America. The drop in 2014 and 2016 may be attributed to the high taxes on exports of major agricultural products, which are the backbone of Argentina’s economy, in combination with the devaluation of Pesos. Also the currency “Peso” has depreciated during the period that may have made the exports more expensive that may have affected its GDP as well. Moreover, the country is suffering from twin deficits (fiscal & primary), which shows that the government has

borrowed leading to rise in interest rates and higher cost of borrowing which may have an unfavorable impact on income and employment. The deficit in “primary” is also leading to trade deficit and depreciating the Pesos as is evident from the Table 6. This is in contrast with Table 1 when there were twin surpluses between 2003 and 2008 that resulted in sustained economic growth during that period. It also helped reducing unemployment rate and poverty rate (percent of population) based on purchasing power parity during the period as shown by Table 2. Rising inflation also reduces purchasing power parity (PPP) and contributes to budget deficit.

However, when we see the historical data of unemployment rate (%) and poverty head count ratio (percent of population) based on purchasing power parity (PPP), Table 7 reflects a particular trend.

**Table 7. Unemployment and Poverty Headcount Ratio (US\$1.90 PPP a day) (% of Population) (Between 2009 and 2017).**

Key Indicator	2009	2010	2011	2012	2013	2014	2015	2016	2017
Unemployment (%)	8.70	7.80	7.20	7.20	7.10	7.30	n.a	8.50	8.40
Poverty (PPP) (%)	2.60	1.11	0.90	0.80	0.80	0.70	n.a	0.60	n.a

*Note:* Knoema, 2018, IMF: World Economic Outlook (WEO), Database.

The Table 7 shows that both unemployment rate and poverty rate based on purchasing power parity (PPP) has decreased considerably between 2009 and 2010, which could be the result of consistent twin balance and decreasing consumer price inflation between 2009 and 2010 as shown by Table 5. It could also be the result of the consistent exchange rate (Pesos: US\$) during the period as shown by Table 5. However we see that, between 2016 and 2017, the unemployment rate has increased and poverty rate (PPP) is almost consistent that could be the result of high twin deficits and high public debt as shown by Table 6.

Another source points out that Argentina emerged as a top player in Latin America that reduced poverty and boosted shared affluence between 2004 and 2008 (The World Bank, n.d). Income of the lowest grew to 40.00 percent at an annual rate of 11.80 percent as compared to the average growth of income (7.60 percent) whereas; based on the official statistics, in the first half of 2018, 27.30 percent of people in Argentina lived in poverty (The World Bank, n.d). The same source points out that, after the presidential elections in 2015 in Argentina, the President took significant steps for economic reforms that included implementation of some core reforms such as taking steps to reduce inflation, to unify the exchange rate, to reform the national statistics system, to modernize the import regime etc. (The World Bank, n.d). In 2017, Argentinian economy grew at 2.90 percent in 2017 then came the period of economic turmoil in 2018. In order to reduce the fiscal deficit, President Macri increased the taxes and defended this increase as a temporary measure, which are due to end in 2020 (Bronstein & Heath, 2018). In the 2<sup>nd</sup> quarter of 2018, economic activity slowed down resulting in the depreciation of Pesos and in the increase of inflation (The World Bank, n.d). This situation prompted the government to increase the revenues, to cut the budget and to agree with International Monetary Fund (IMF) for US\$ 57 billion until 2021(The World Bank, n.d). This way, for the first half of 2018, the government surpassed its budget objectives and the principal budget deficit, for the first eight months of 2018, touched 1.10 percent of GDP (The World Bank, n.d). The government plans to attain the principal fiscal balance in 2019 and plans that the principal fiscal surplus of 1.00 percent of GDP is reached by 2020 (The World Bank, n.d).

Based on Panam Post (Duclos, 2019, February 28), the Argentinian economy tumbled by 2.60 percent and there were 191,300 jobs lost by the private sector in 2018; however based on Focus Economics (2019, March 12, pp. n.a), “Economic activity plunged throughout Q4 2018, hit by sky-high interest rates, a contraction in credit, soaring inflation and downbeat consumer confidence” ..... and, in February 2019, the current President Macri of Argentina announced that “the government would extend USD 2.60 billion in loans to private companies at favorable interest rates, in a bid to cushion the ongoing credit crunch”. Based on the same source, Argentinian economy is projected to contract at the rate of 1.10 percent in 2019 and is expected to expand at the rate of 2.50 percent in 2020 (Focus Economics, 2019, March 12). Please also refer to Appendix B at the end of the report to see the the graphical representation of the variations in Argentina’s GDP per capita based on PPP, real GDP growth rate (percent change), Argentina inflation rate (percent change) and Argentina’s government gross debt as a percent of GDP between the years 2007 and 2017/2018.

## **Policy Recommendations**

Argentina needs to take ambitious reforms following years of pursuing untenable economic policies. There are many challenges that lie ahead. There were many significant macroeconomic inequities that built up fiscal deficit and inflation because of which the growth was not sustainable. Hence the government should try to rigorously pursue the planned fiscal targets and try to phase out subsidies in various sectors.

The Argentinian government needs to reduce spending or be more judicious about their spending. The government should try to rationalize public employment and should plan to further effect cost-savings in state-owned corporations. In the past whenever there were international financial crisis affecting every country, governments across the world took stern action to meet such enormous challenges to avoid another 1929 and the entire decade of the 1930s. Nobody wants to experience that again. Although, Argentina is currently showing some signs of economic recovery, still the question is: “What can the President and the government of Argentina do to bring the country out of the existing crisis into prosperity again?”

One policy recommendation is to decrease the export prices on commodity crops, such as wheat, corn and soybeans. Export taxes negatively impact the income of farmers to the point that they themselves cannot survive. Farmers are still paying lot of taxes on various agricultural products on what they export. The announcement of President Macri, in the month of September 2018, to levy 10.00 percent export taxes on the grains made the farmers leery to delay wheat sales and plant less corn (Bronstein & Heath, 2018). Taxes or tariffs should be levied on imports, not exports however tariffs or taxes even in imports should be limited to a reasonable degree. The revenue would be made up in volumes. Farmers should pay less than the VAT tax that is levied on all sales.

Next, the government needs to negotiate with the unions who are so dominant in many industries. Salaries are skewed in union shops when compared to non-union shops. Sometimes, the salary is appropriate, often, it is not. We all know this. Some of these salaries need to be reduced. Along with this, the government also needs more policies to encourage small businesses development, technology service companies, start-ups or entrepreneurial development and hiring in large existing companies. This would likely mean a tax-credit or subsidy of some sort but will reduce unemployment and increase consumer spending, all of which lead to economic growth. Further, the government should streamline the administrative measures to individuals who want to start a company.

The government should plan to follow a tax-reform, which should be based on revenue-neutral. Such tax-reform should include lowering the threshold tax income with a progressive rate schedule and should also include progressive reforms in social security contributions and try to lower such social security contributions for low-paid employees at least temporarily.

Finally in order to increase the inflow of the foreign direct investment in Argentina, the government needs to create an aura of trust among the foreign investors. Further the government should try to remove further restrictions and limitations and improve the transparency of regulatory regime. The government should give tax-breaks to reasonable limit and should provide an interest loan as incentives in order to further increase foreign direct investment and reinvestment in the country.

## ***References***

Bronstein, H., & Heath, H. (2018). Reuters. UPDATE 1 – Argentina farmers seen delaying wheat sales under new tax regimes. Retrieved from <https://www.reuters.com/article/argentina-economy-grains/update-1-argentine-farmers-seen-delaying-wheat-sales-under-new-tax-regime-idUSL2N1VP0MA>

Last Accessed November 5, 2018

Business Wire. (2008). Fitch Downgrades Argentina’s Local Currency IDR to “B-”. Market Watch. Retrieved from <http://www.marketwatch.com/news/story/Fitch-Downgrades-Argentinas-Local-Currency/story.aspx?guid={465D588E-43A8-47B2-A85C-32C020A95C86> Last Accessed November 4, 2018



- Duclos, M. (2019, February 28). Panam Post. Economy Falls and Unemployment rises at start of 2019. Retrieved from <https://panampost.com/marcelo-duclos/2019/02/28/argentina-economy-falls-and-unemployment-rises-at-start-of-2019/>Last Accessed November 5, 2018
- Economist Intelligence Unit. (2008a). Funding Argentina's "New Deal." The Economist. Retrieved from [http://www.economist.com/displayStory.cfm?story\\_id=12725187](http://www.economist.com/displayStory.cfm?story_id=12725187) Last Accessed November 3, 2018
- Economist Intelligence Unit. (2008b). Country Briefings: Argentina. The Economist. Retrieved from [http://www.economist.com/COUNTRIES/Argentina/PrinterFriendly.cfm?Story\\_ID=12\\_230078](http://www.economist.com/COUNTRIES/Argentina/PrinterFriendly.cfm?Story_ID=12_230078) Last Accessed November 3, 2018
- Focus Economics. (2017, February). Country in Focus. Argentina. Historical Data and Forecasts. pp. 1-24. Retrieved from <https://www.focus-economics.com/data/pdf/FocusEconomics-Report-Overview.pdf> Last Accessed November 5, 2018
- Focus Economics. (2019, March 12). Economic Forecasts from the World Leading Economists. Argentina Economy Data. Retrieved from <https://www.focus-economics.com/countries/argentina> Last Accessed November 5, 2018
- Garcia, D. (2008). Argentina Running Out of Runway. Strategic Forecasting (Stratfor). Retrieved from [http://www.stratfor.com/analysis/20081204\\_argentina\\_running\\_out\\_runway](http://www.stratfor.com/analysis/20081204_argentina_running_out_runway) Last Accessed November 4, 2018
- Knoema. (2018, October). World Atlas Data. Argentina. IMF: World Economic Outlook, Database. Retrieved from <https://knoema.com/atlas/Argentina/Poverty-rate> Last Accessed November 5, 2018
- Latin America Advisor Newsletter. (2008, December 15). Perspectives: Argentina: Economic Boost? Latin Business Chronicle. Retrieved from <http://advisor.thedialogue.org/app/article.aspx?id=2941> Last Accessed November 4, 2018
- Lynch, D.J. (2007, November 8). Argentina's snub of conventional wisdom pays off. USA Today. Retrieved from <http://econ-argentina.blogspot.com/>Last Accessed November 3, 2018
- Newbery, C. (2008, August 6). Hard Times for Argentina: Latin America's most vulnerable economy faces restive farmers, skyrocketing inflation, and mounting debt. And it still needs to strike a deal with creditors it disappointed in 2001. Business Week Online.
- Prosper Ar. (2008). Argentina at a glance. Retrieved from <http://www.ccaa.com.ar/img/about%20argentina/argentina-at-glance.pdf> Last Accessed November 3, 2018
- The World Bank (n.d). The World Bank in Argentina. One of the largest economies in Latin America, Argentina is currently undergoing an economic transformation that promotes sustainable economic development with social inclusion and integration into global economy. Retrieved from <https://www.worldbank.org/en/country/argentina/overview> Last Accessed November 5, 2018
- Travel Document Systems, Inc. (2009). Economy of Argentina. Travel Document Systems, Inc. Retrieved from <http://www.traveldocs.com/ar/economy.htm> Last Accessed November 3, 2018
- Turner, T. (2008). "As Argentina Economy Cools, Tax Collection Rates at Risk". Dowjones Business News. Retrieved from <http://www.easybourse.com/bourse-actualite/marches/as-argentina-economy-cools-tax-collection-rates-at-risk-567744> Last Accessed November 4, 2018
- Weisbrot, M. (2008). Issue Brief: Argentina: The Crisis That Isn't." Center for Economic and Policy Research. pp. 1-9. Retrieved from [http://cepr.net/documents/publications/argentina\\_2008\\_10.pdf](http://cepr.net/documents/publications/argentina_2008_10.pdf) Last Accessed November 4, 2018

