ARGENTINA’S ECONOMIC OUTLOOK
A CLAI Symposium

By: Ashley B. Caja*

On Tuesday, June 6, 2006, The Center for Latin American Issues (CLAI) hosted a symposium on the Argentine economy. Dr. Eugenio A. Diaz-Bonilla, the Executive Director for Argentina at the Inter-American Development Bank, made a presentation, which was followed by commentary by Dr. Claudio Loser, a professor at the GW Elliott School of International Affairs. The event, entitled “Argentina’s Economic Condition and Prospects,” drew a diverse audience of professionals, academics, and students.

After a welcome by CLAI Director Dr. James Ferrer, Dr. Diaz-Bonilla spoke of Argentina’s economy and the challenges and opportunities that it faces. He noted that the Argentine economy has performed well in recent years, and that its high rates of growth is not only regionally balanced but also pro-poor and pro-employment. He attributed Argentina’s recovery from the economic crisis of 2001-2002 to high levels of investment, as well as a strong macro-economic anchor of fiscal, trade, and current account surpluses.

Dr. Diaz-Bonilla spoke about some of the debates between Argentina and the International Monetary Fund since the crisis, including the debates regarding exchange rates, the privatization of utilities and other state-owned enterprises, the balance between growth and inflation, and debt negotiation. He cited the debt problem as the largest and most complex problem that the Argentine government faces. He explained that there have been two competing paradigms that address the debt problem: the public bailout approach and the market-based approach. Argentina is following the market-based paradigm, which means that Argentina’s debt burden is far worse than other recovering economies. Looking toward the future, Dr. Diaz-Bonilla mentioned several issues that could threaten continued economic growth, including the debt problem, growth disparities among different provinces, infrastructure issues, and social inequality.

Commenting on Dr. Diaz-Bonilla’s presentation, Dr. Loser first reiterated the progress that Argentina has made since 2002: 39% total growth for the period; a sharp decline in poverty; a rise in per capita income; account surpluses; high levels of reserve; high levels of investment; and a sustainable debt position. However, he noted that the Argentine economy faces several problems in the medium- and long-term. Despite Argentina’s
strong fiscal policy, government expenditures are growing faster than revenues. He warned that the Argentine government must resist the temptation to spend in order to continue its strong economic performance. Furthermore, he argued that price controls are not the solution to inflation; rather they can cripple the Argentine economy unless monetary policy is tightened in the coming years. Another serious roadblock to continued economic growth in Argentina relates to the energy sector. Dr. Loser pointed out that energy consumption has been increasing without any significant increase in production or capacity. Finally, Dr. Loser expressed his concern that the high investment rates are driven by small investment, not by the big investment that will help change the structure of the Argentine economy.

Dr. Diaz-Bonilla responded to Dr. Loser’s remarks by mentioning that both he and Dr. Loser interpret the same numbers, and that the difference in this analysis comes from Dr. Diaz-Bonilla’s optimistic outlook. Following their presentations, both speakers entertained questions from the audience.

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