

## December Article

### The Case For a New Argentina

When, in December 2001, Argentina officially defaulted on USD 93 bn, world investors expected the worst for the country. A new hope was now found in Mauricio Macri, a former business tycoon who was elected President in November 2015.

Before the Great Depression, Argentina was one of the richest economies in the world. Its exports-based model worked perfectly in a time the world needed food supplies, which Argentina provided. After the Great Depression, a wave of protectionism spread across the globe and crisis burst in the country. The rest of the 20th century was not short of troubles for the Latin American giant. Populist governments and military dictatorships constantly changed in power, and a new long term economic plan was never carried out in the country.

In the 1990s, the Argentinians decided to peg the USD to the Peso, in a move which sharply increased public debt and damaged exports. Eventually, this led to the 2001 default. What came after the default, however, was even worse. The economic turmoil cleared the way for the election of Nestor Kirchner in 2003 and his wife Cristina in 2007. Both of them were Peronists, meaning they would impose lots of populist measures. When Cristina left office in 2015, the country was an economic and social wreck: inflation was around 30% per annum, there was virtually no foreign investment due to capital controls and the once

striving agricultural sector was devastated by export taxes. Utility prices were distorted by public subsidies, the State was responsible for employing a big portion of the population and the national statistics bureau was controlled by the government – inflation was officially only 2% per annum. On top of this, corruption levels grew dramatically.

In November 2015, the Argentine people cast their votes to elect a new President, and chose a different path by electing Mauricio Macri, the former Governor of the city of Buenos Aires who, for 13 years, was also the President of Boca Juniors, one of the renowned Argentinian football clubs.

Immediately after Mr. Macri took office, change was felt in the country. In less than 6 months he managed to bring currency trading back to normal, with the Peso devaluing quite significantly to its "true" market value, normalize multinational companies' activities in the country, get foreign investors promising to invest more than USD 30 bn in Argentina and, to the surprise of international markets, settle the default with the so called "vulture funds", the only ones who had not accepted the debt restructuring terms Argentina had proposed back in 2005, thus finishing a legal battle that lasted for more than a decade. Mr. Macri and his team have also launched a large scale programme to renew the country's infrastructure, building roads and restructuring airports, in an attempt to help exporters.

Argentina has the potential to be one of the biggest food producers in the world, with great geographic and climatic conditions, and a strategic location which allows the country to export its products. It also has one of the biggest shale oil reserves on the planet and a considerable potential for renewable energy production. Nonetheless, this is not going to be an easy path to trail. Inflation is still stubbornly high and it will take time until the Argentinian families feel the results of Mr Macri's structural measures. This represents a big challenge, as Argentinians have traditionally shown low levels of patience. It is up for them to decide: will they want to grasp this opportunity, or will they fall for the populist trap once more?



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