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Argentina's Economic Outlook

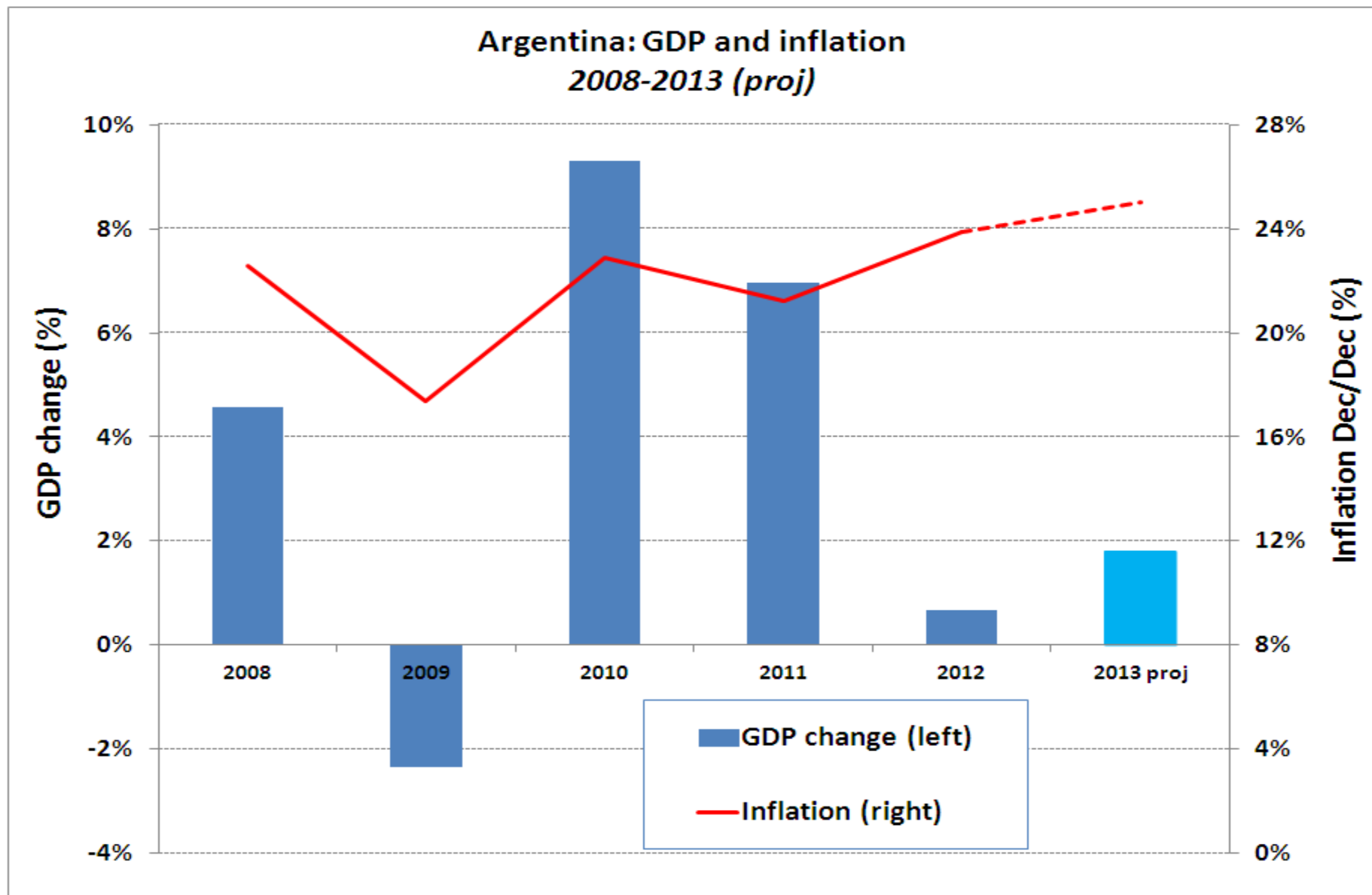
Slowdown, inflation and nominal anchors

Juan Luis Bour

Council of the Americas

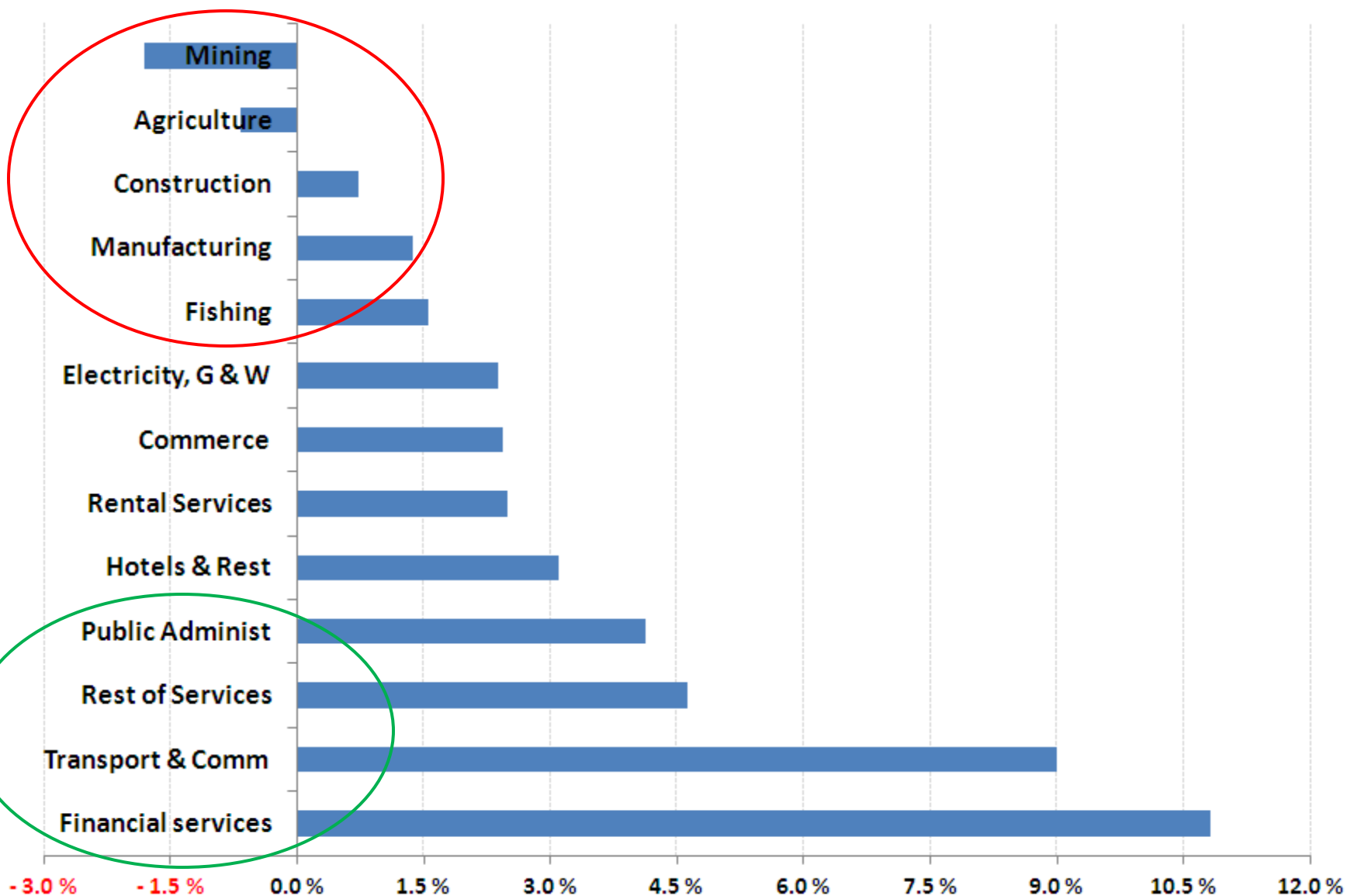
New York, April 23rd, 2013

Low growth, sustained inflation



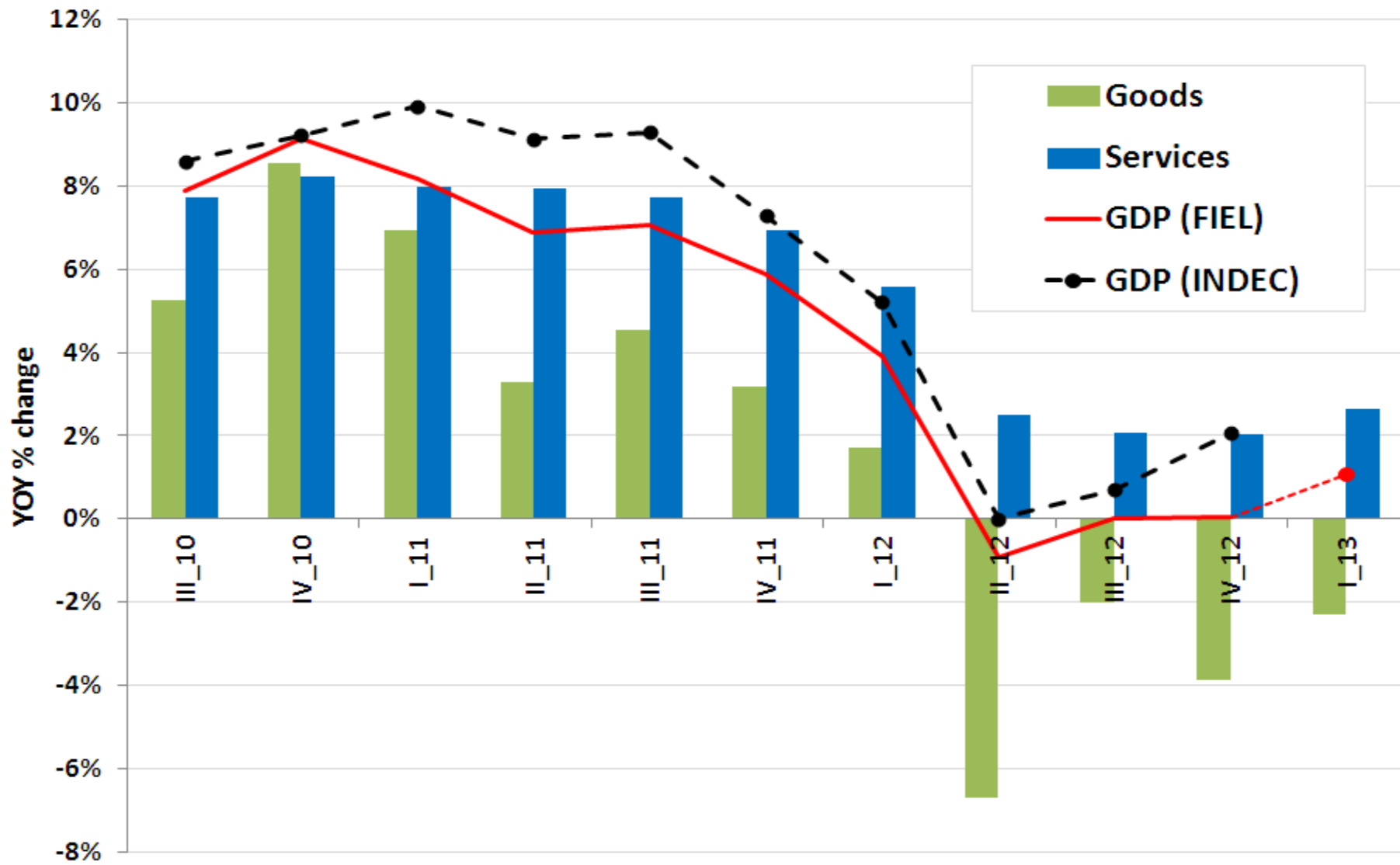
Accumulated GDP growth 2008-2012

annual average growth rate

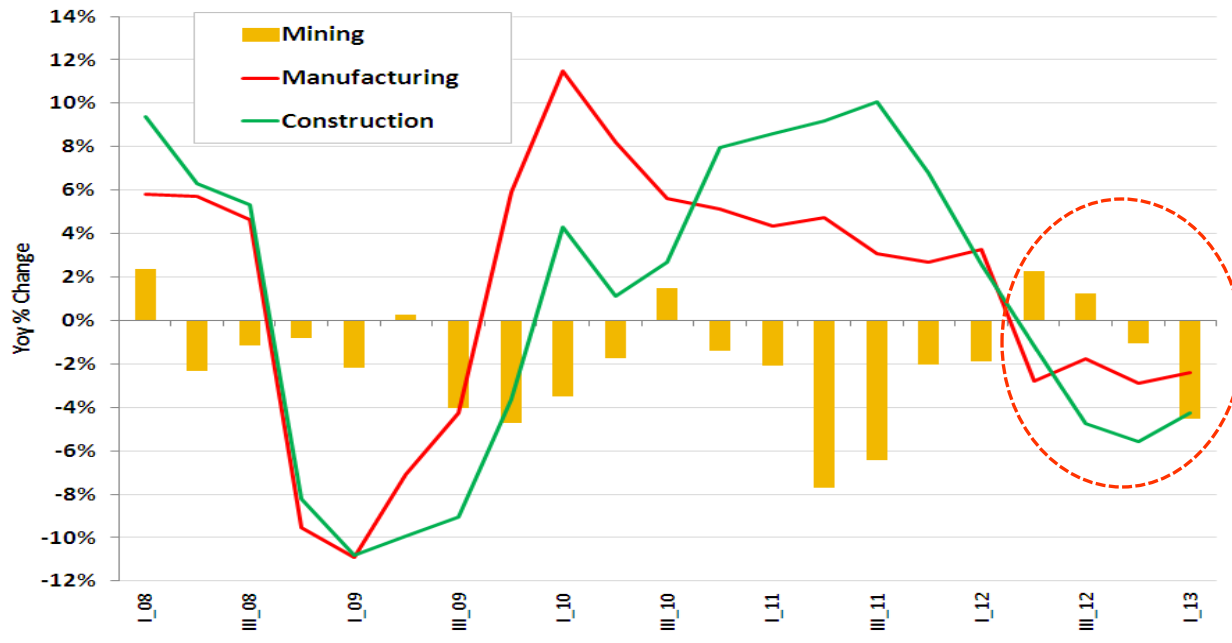


GDP growth

(% Yoy)



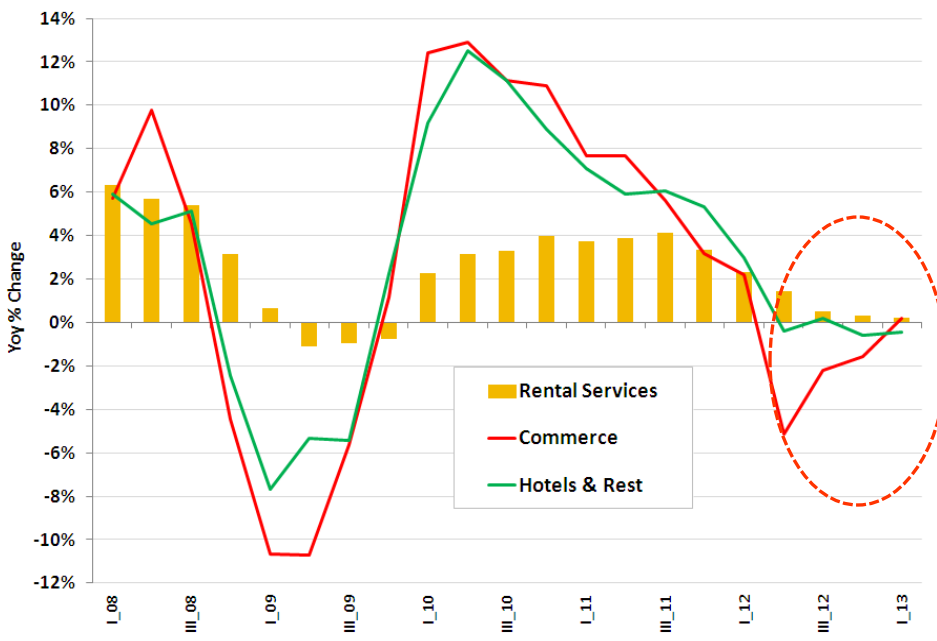
Manufacturing, Construction and Mining



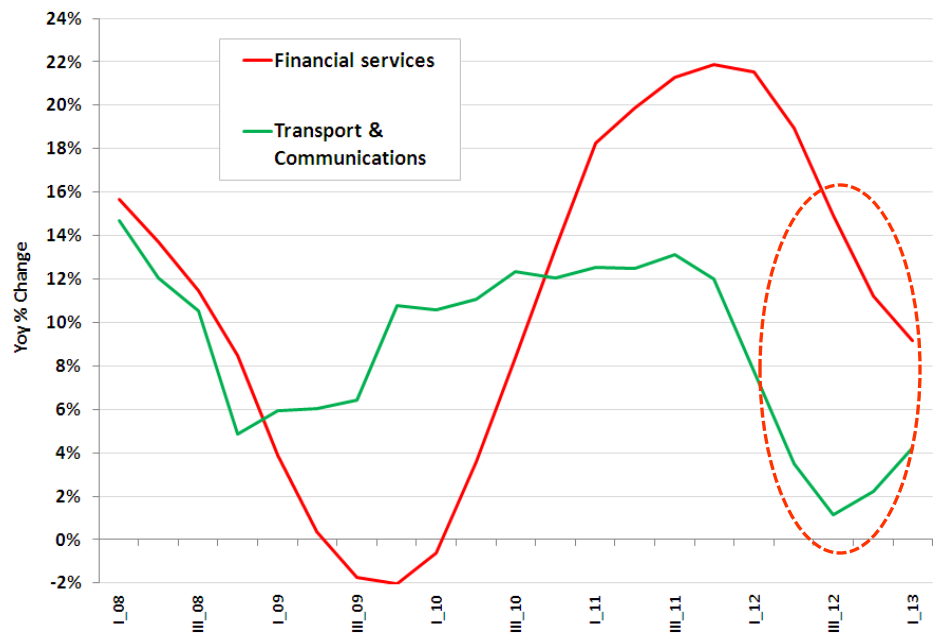
Recession in Tradable goods and Commerce (and in Services affected by exchange restrictions)

Best performers again: Financial services and T, S & C

Commerce, Hotels & Restaurants, Rental Services



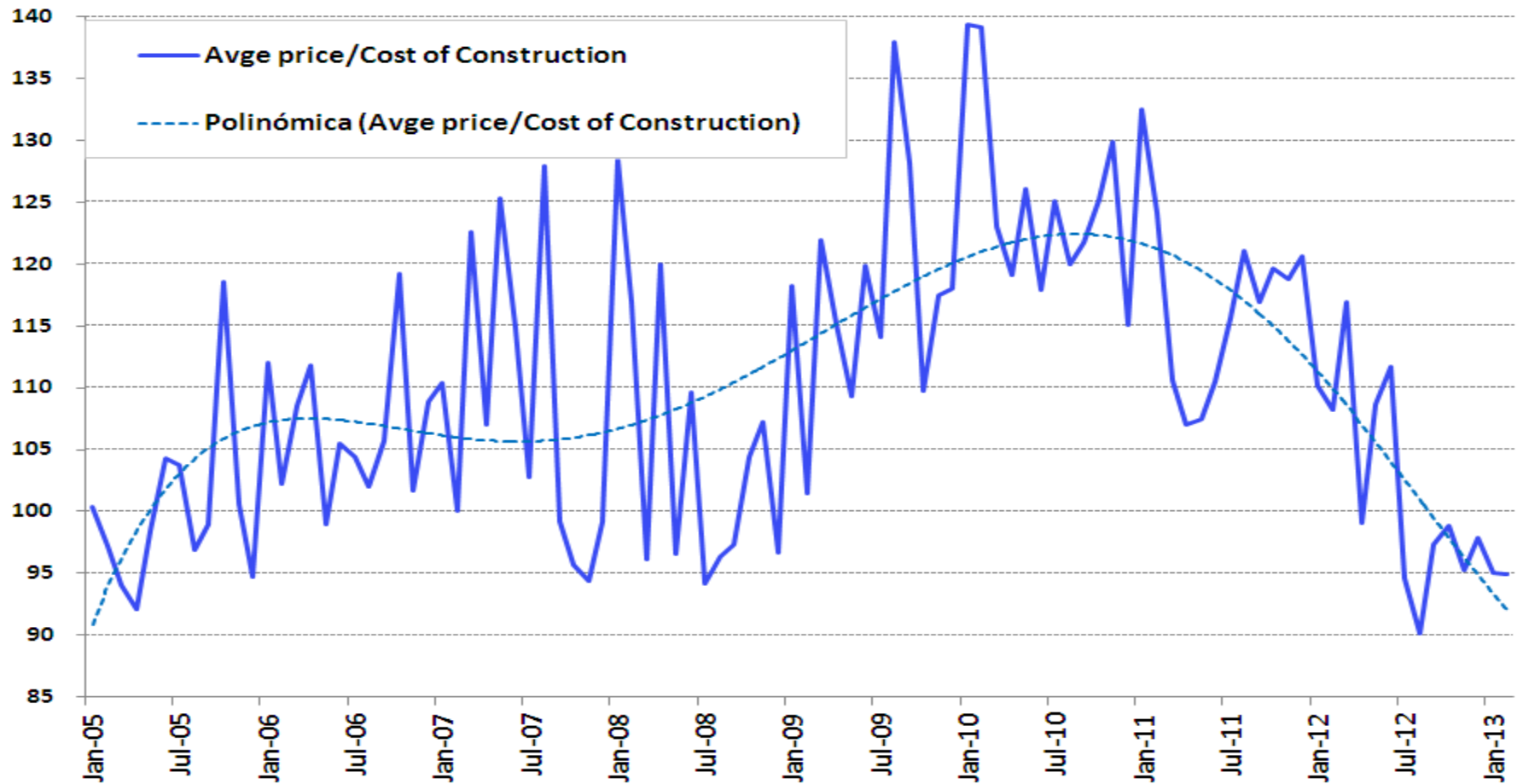
Financial Services, Transport & Communications



Recession in Construction

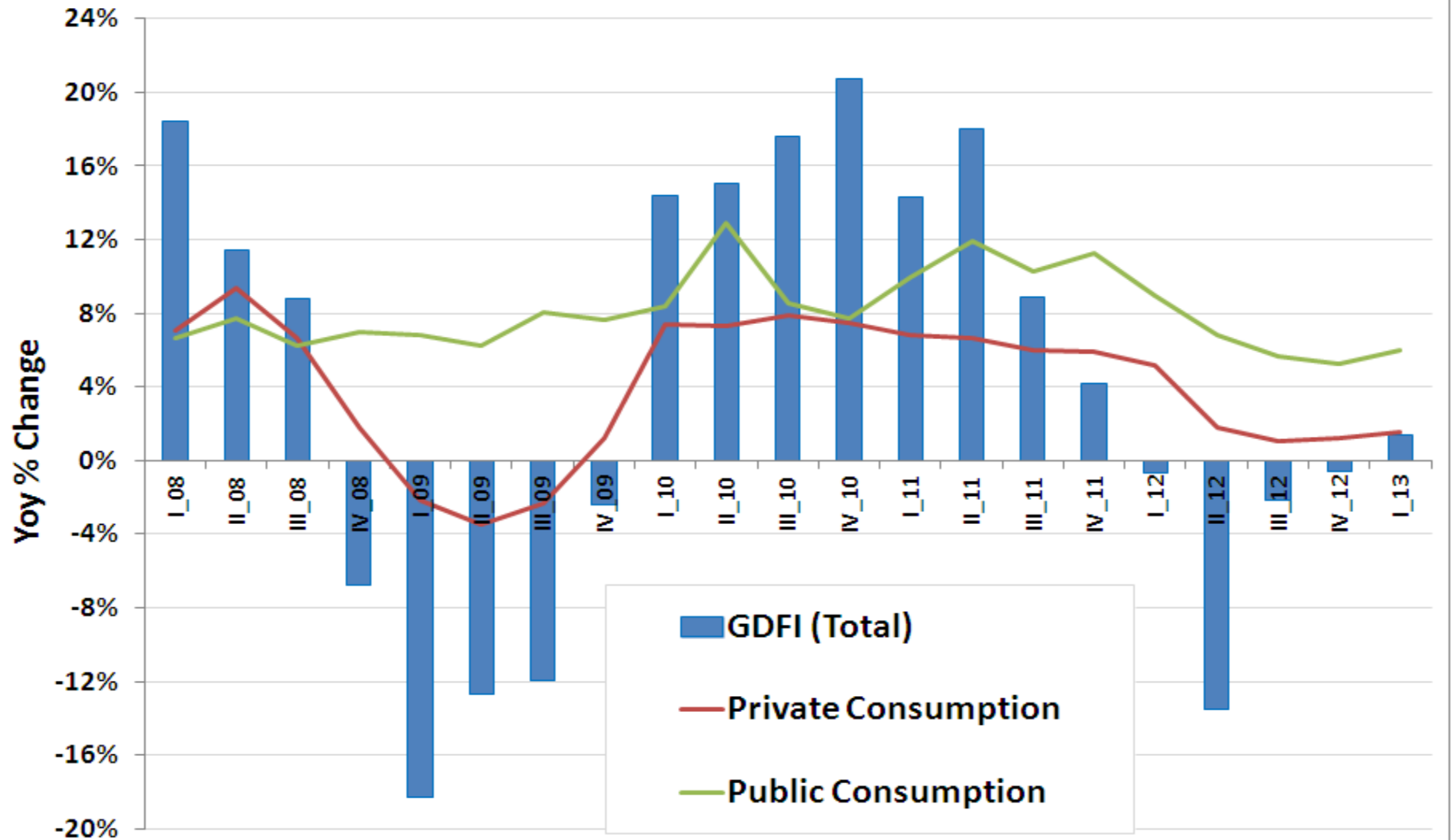
Property prices fall with restrictions to operate in foreign currency. With rising construction costs Tobin's Q ratio (market asset price/cost of replacement) falls

Ratio (Q): Average price/Cost of construction (INDEC)
2005:100

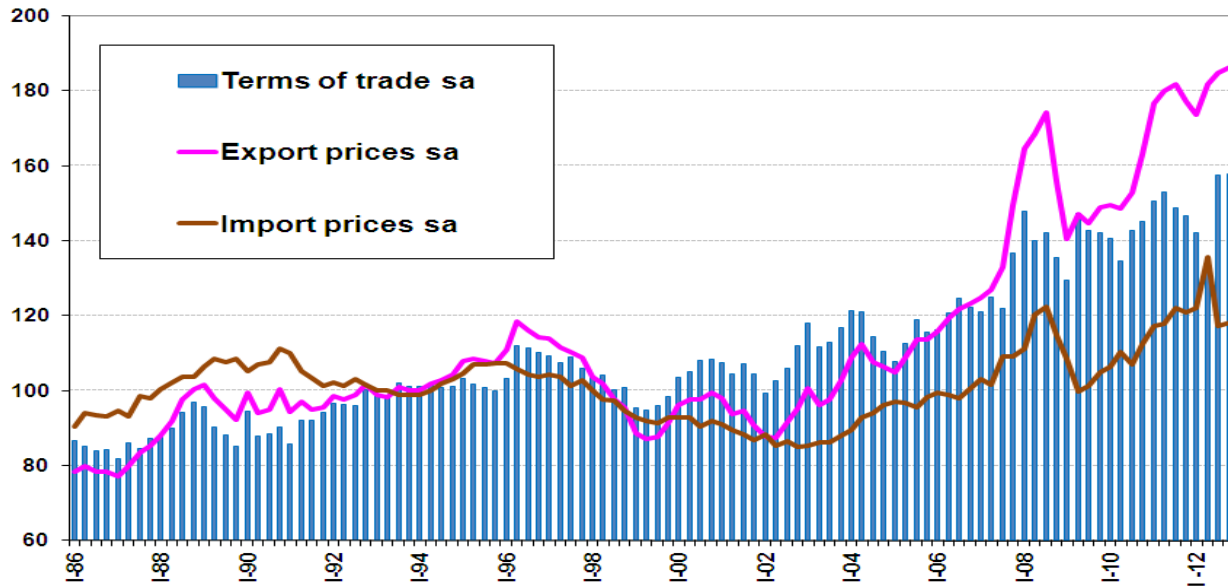


Investment and Consumption

Yoy % change



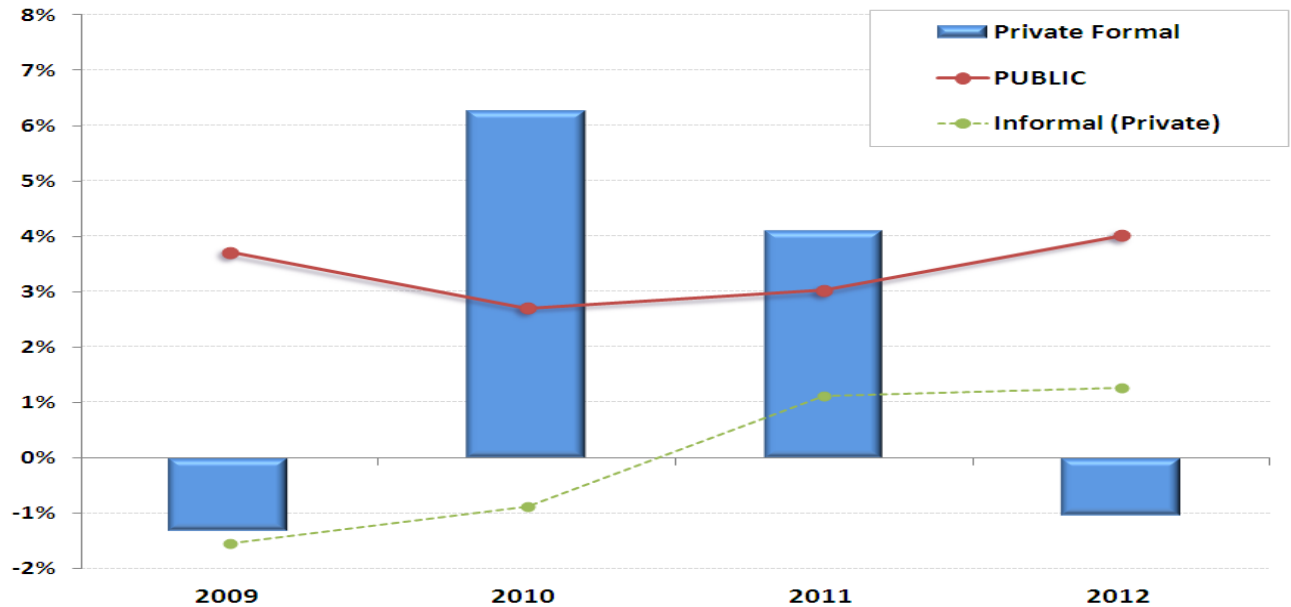
Terms of Trade seasonally adjusted
and prices of exports and imports (Goods)



*From tailwind
to headwind?*

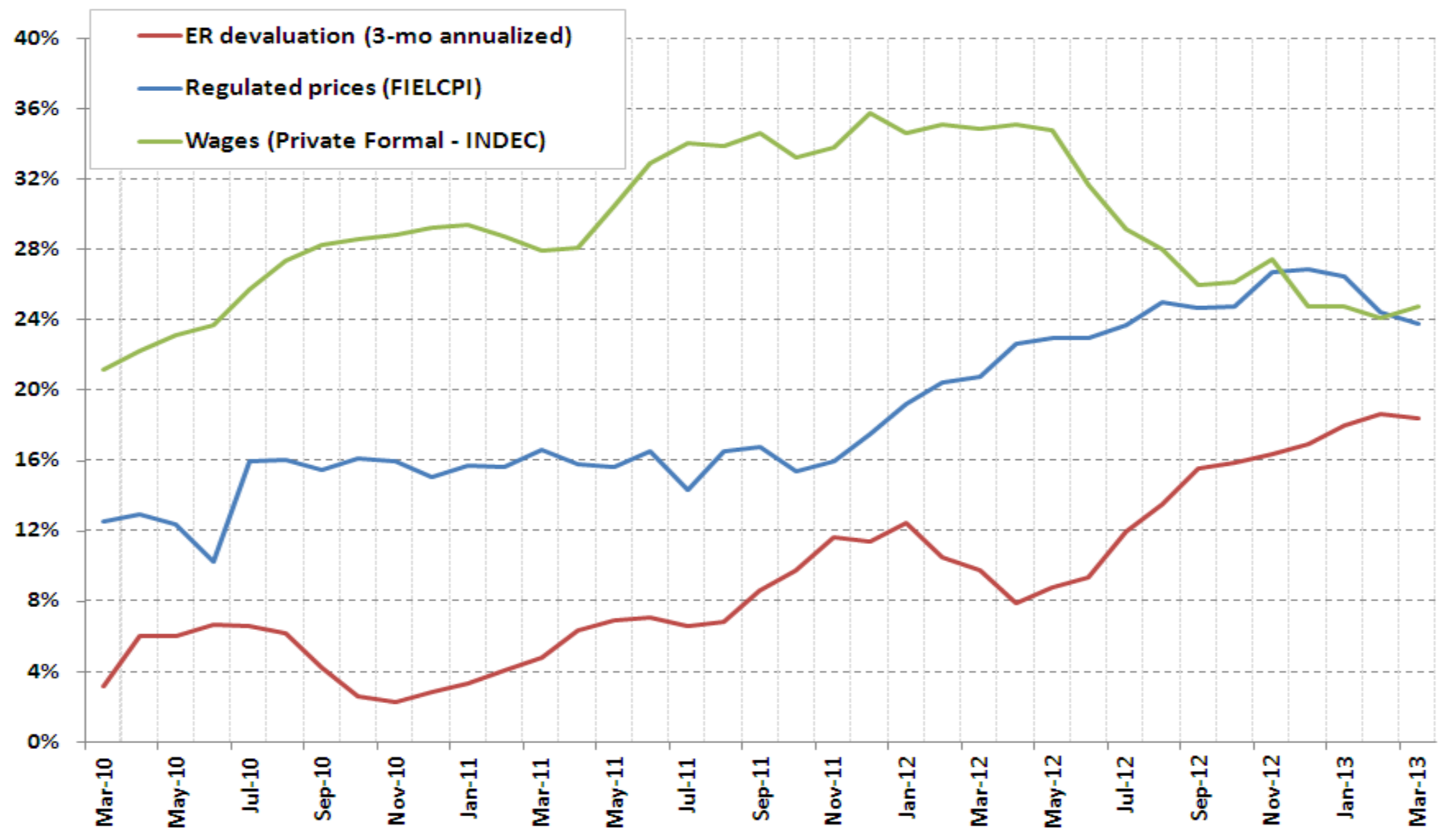
*Stagnation in
private formal
employment*

Annual change in Employment



What nominal anchors?

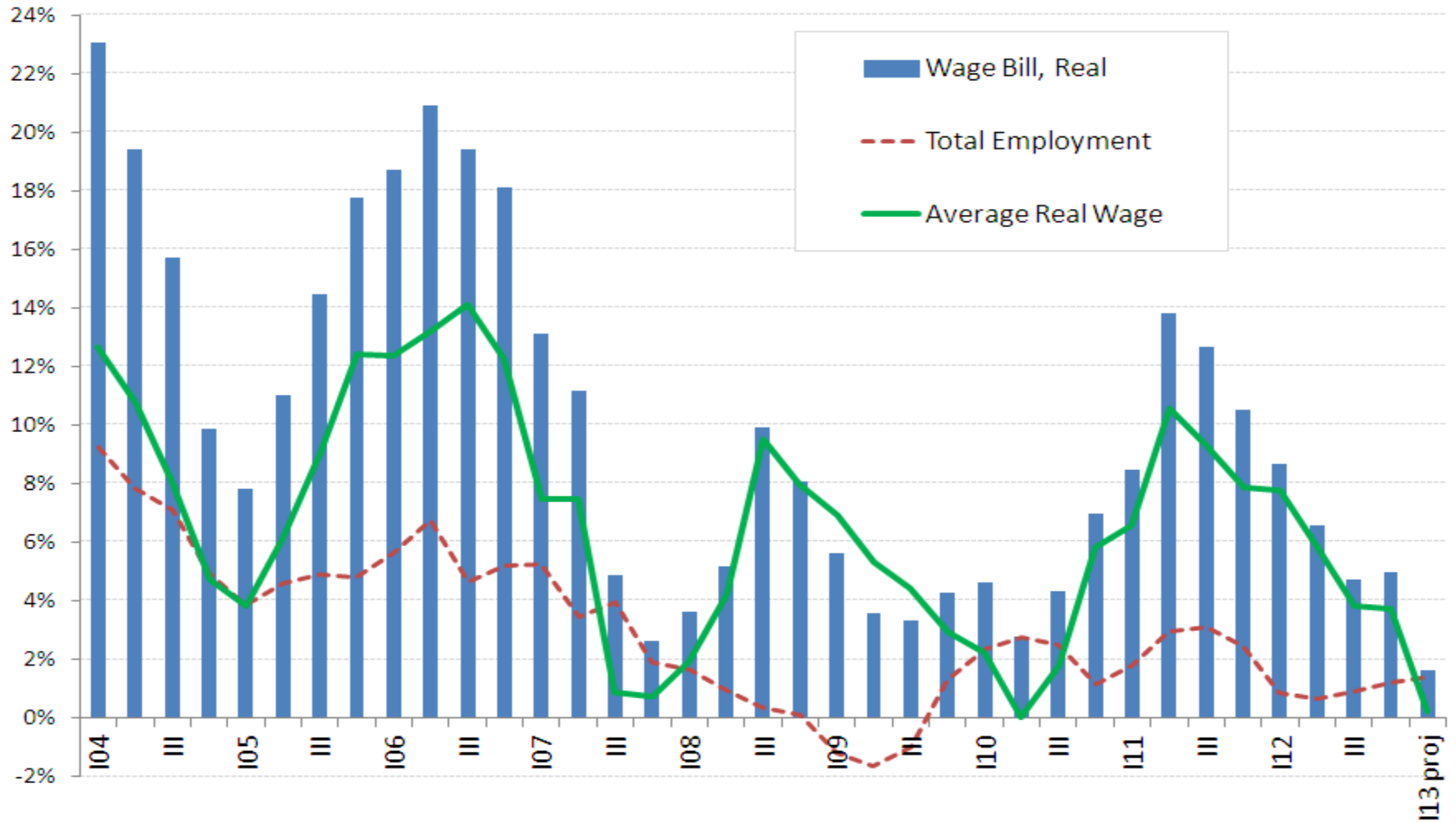
Nominal changes (yoy)



Wages as nominal anchor and the wage bill

Wage Bill: Year on year (%) evolution in real terms

(Informal and Formal workers, Private and Public)





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Argentina: The true cost of public utilities regulations

Santiago Urbiztondo

COAS, New York

April, 2013



New post-2002 regulatory paradigm

International consensus about “best-practice”:

- no “one-fits-all” model, but some (broad) basic features...
- clear division of public and private roles,
- promote competition / focus on monopolies
- incentives to efficient operation / sharing gains with consumers / avoid myopic perspective
- transparency, institutional credibility, technicality, etc.



New post-2002 regulatory paradigm

Post-2002 actual practice in Argentina defies it:

- ***Focalization***: exceeds natural monopolies, prevents competition
- ***Institutions***: political intervention / expropriations / confused roles
- ***Transparency***: unilateral decisions, no public hearings / consultations, Emergency Law extended since 2002
- ***Tariffs***:
 - Artificially low regulated prices / tariffs
 - If needed, (*cost-plus*) subsidies
 - No relevant social tariffs
- ***More generally, it applies a discretionary “command and control” rule, short-run oriented, discriminating old and new capital, halting incentives to invest and to productive efficiency***

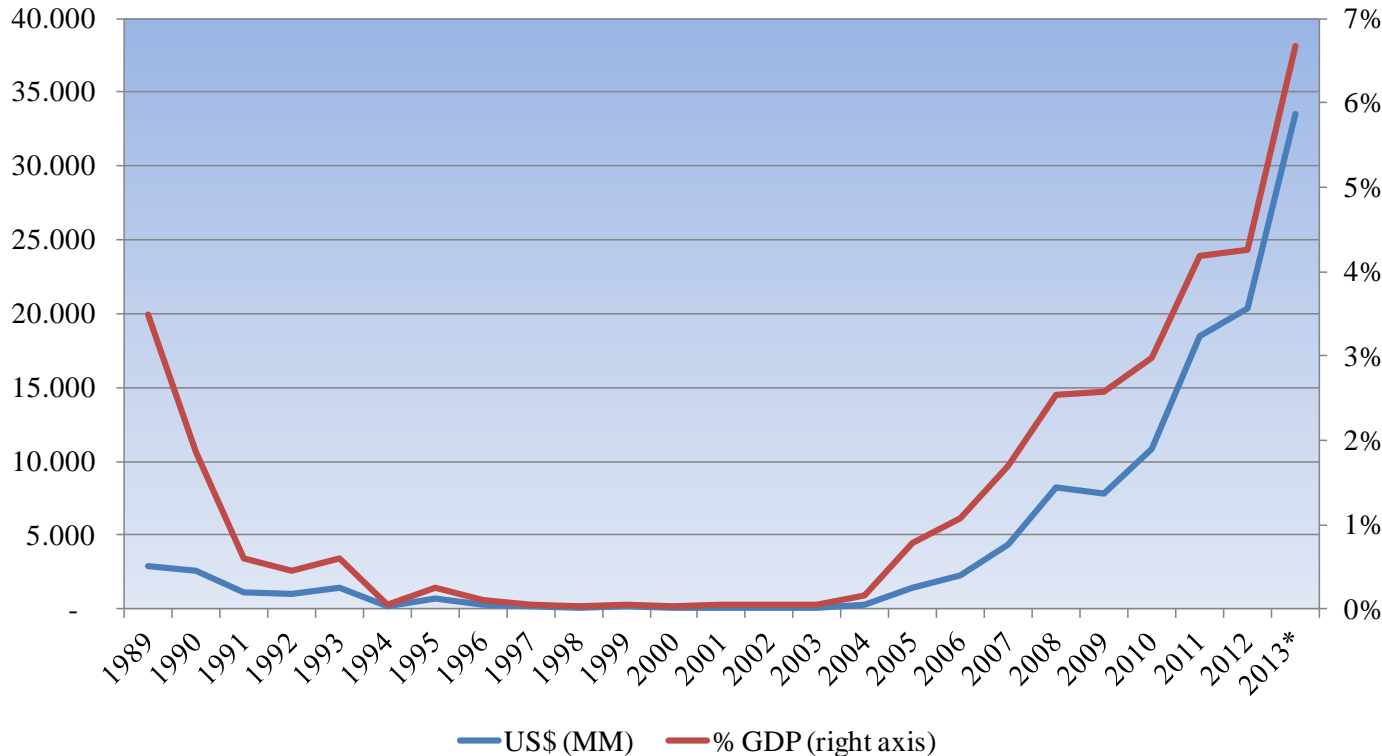


Consequences

1. First, minor quality & coverage problems
2. Once demand grows back (2005 on), new investment is required, higher tariffs or subsidies are needed

Subsidies to public utilities, 1989-2013*

Source: Own elaboration based on SIGEP (1989-1995, MECON (1996-2003) and ASAP (2004-2012): Until 2003 it includes YPF, GE, AyEE, Hidronor, AA, FFAA, ELMA, ENTEL, ENCOTEL and OSN. Since 2004 includes subsidies to public and private firms in the energy sector, transportation and W&S. 2013* based on two first months only (annual variation), and GDP growth in US\$ is assumed at 5% .



In 2012: subsidies to public utilities added US\$ 20 billions, and surpassed critical 1989 as % of GDP (4.3% vs. 3.5%)

2013: First two months are explosive (projected above US\$ 30 billions, and 6% of GDP)



Consequences

1. First, minor quality & coverage problems
2. Once demand grows back (2005 on), new investment is required, higher tariffs or subsidies are needed
- 3. As firms lacked resources or certainty of its evolution, increasing defaults on various obligations, deteriorating quality, coverage, etc.**

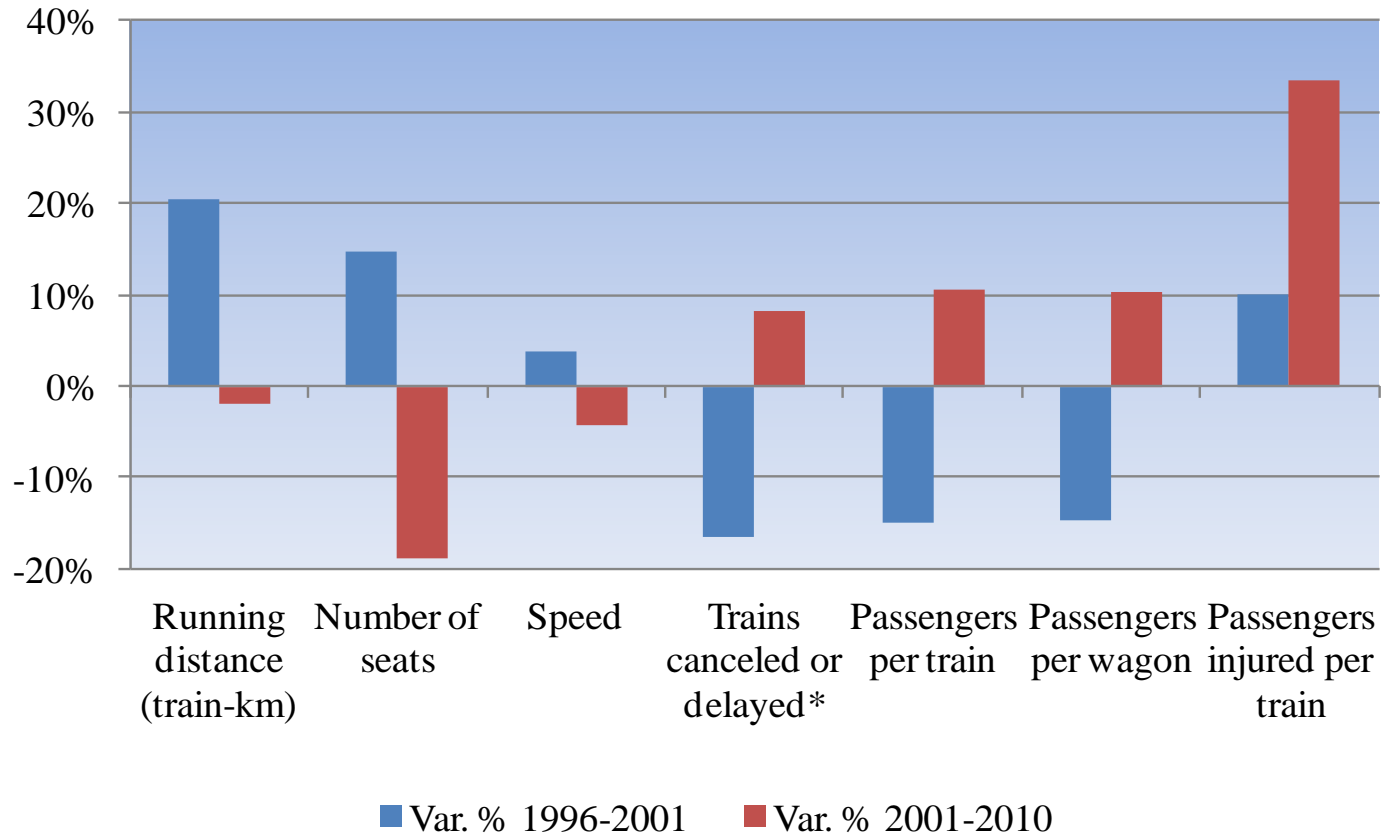


Quality / Coverage / Investment

Urban passenger railways: contrasting with pre-2002 evolution, post-2001 it reduced coverage, quality, comfort and safety (and statistics)

Urban passenger railways: coverage & quality indicators, 1996-2010

Source: Own elaboration based on CNRT. * Period 1993-2001.

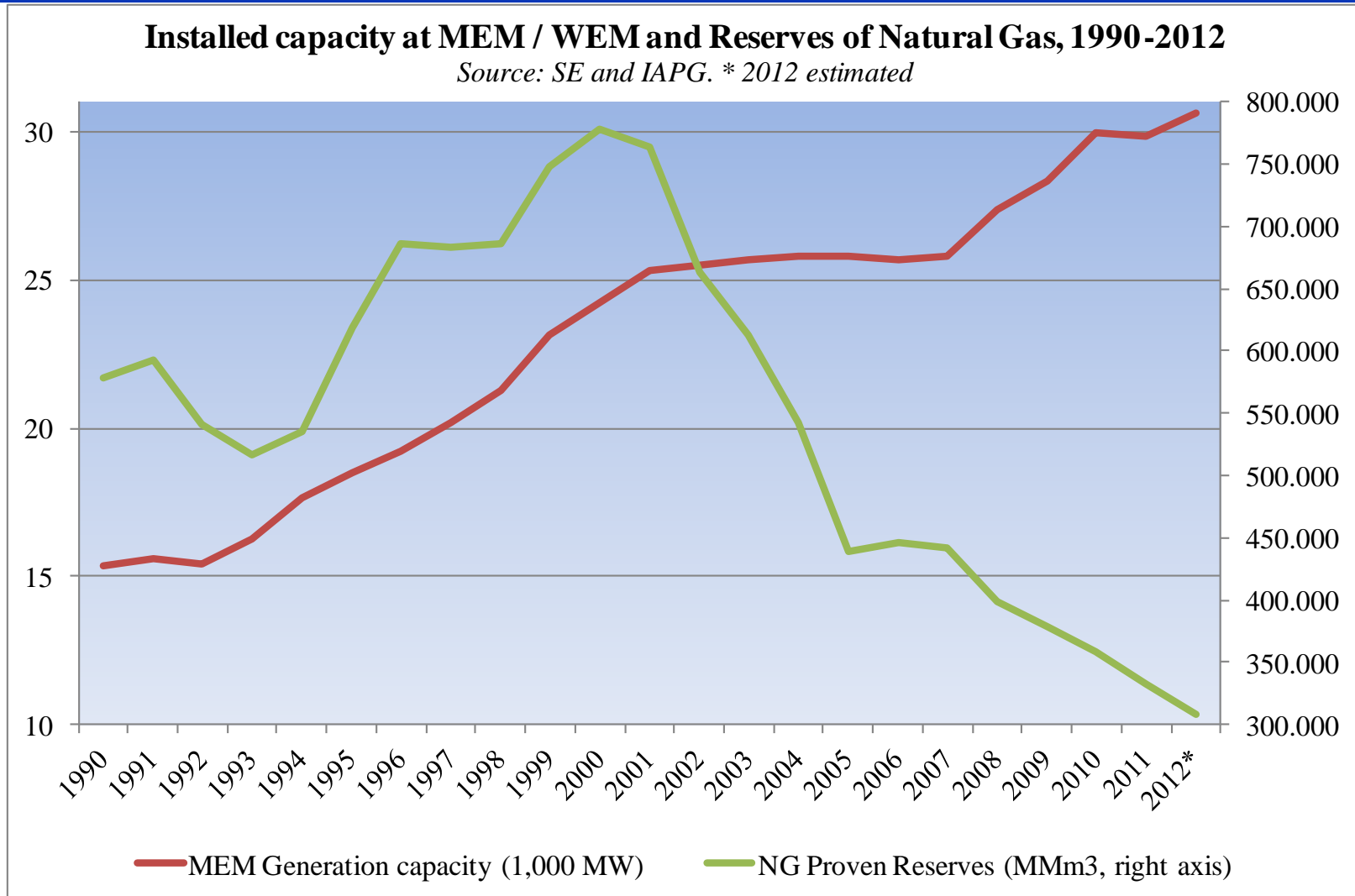




Quality / Coverage / Investment

Electricity: wholesale generation capacity stuck during 2001-2007

Natural gas: reserves collapsing since 2000's peak



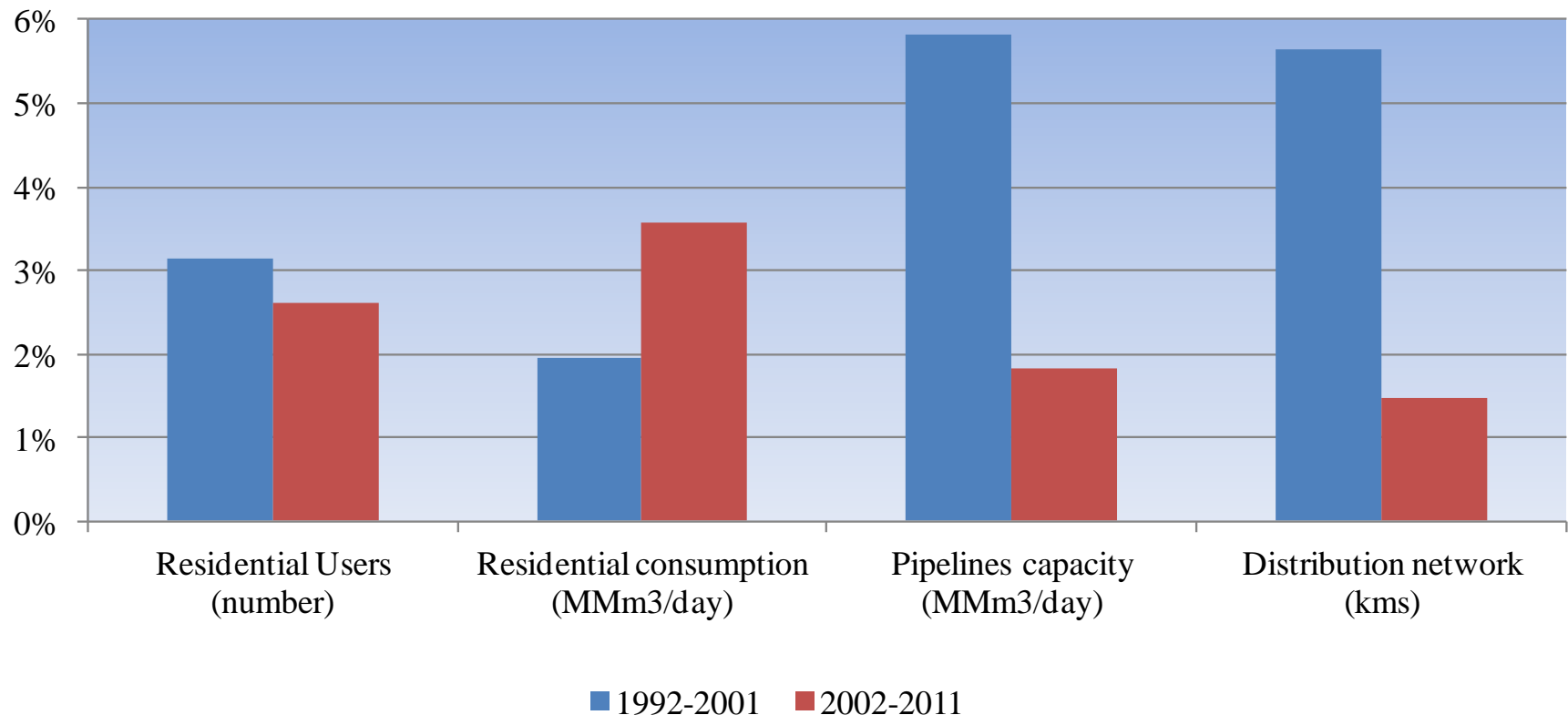


Quality / Coverage / Investment

Natural gas: Slower annual growth of number of residential users (who consume more) and of T&D capacity

Natural gas: Coverage and infrastructure capacity (average annual change), 1992-2001 vs. 2002-2011

Source: Own elaboration based on ENARGAS.





Consequences

1. First, minor quality & coverage problems
2. Once demand grows back (2005 on), new investment is required, higher tariffs or subsidies are needed
3. As firms lacked resources or certainty of its evolution, increasing defaults on various obligations, deteriorating quality, coverage, etc.
4. **Also, facing discretionary *cost-plus* subsidies, investment and operation costs are incentivized to increase**

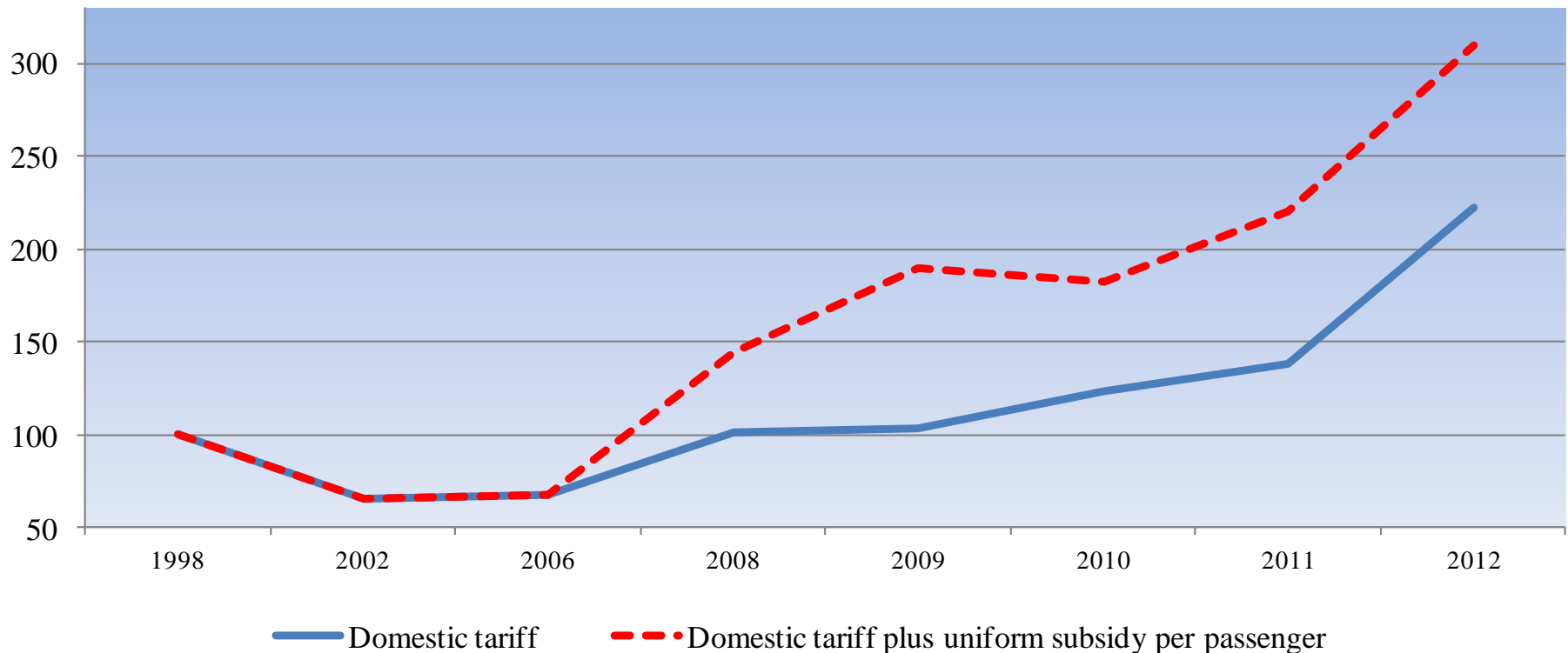


Tariffs, subsidies and costs

Aerolíneas Argentinas: US\$ tariffs doubled since 1998, but total income (and cost) per passenger tripled

Average cost per AA's passenger: regulated domestic tariffs and subsidies, in US\$ (1998=100), 1998-2012

Source: Own elaboration based on FIEL (1999), ST, Informe de Gestión 2010 AA, Diario La Nación and ASAP. (Subsidies assumed to supplement domestic and international services in equal proportion. Years 2011 and 2012 involve an estimation of number of passengers.)



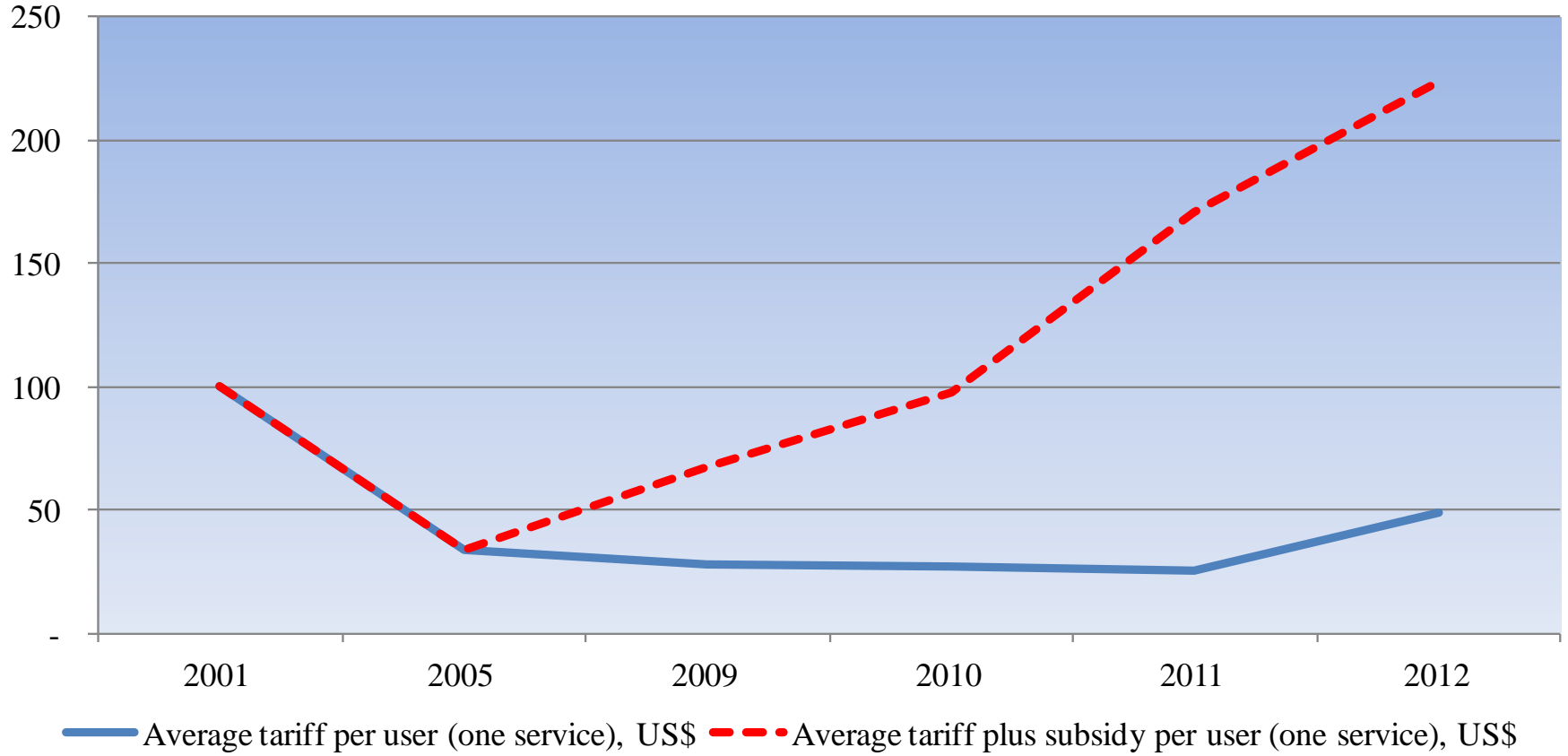


Tariffs, subsidies and costs

W&S in GBA: US\$ tariffs 50% lower than in 2001, but total income (and cost) per user more than doubled (+450% since 2005)

W&S: Average cost per AySA's user: regulated tariffs and subsidies, in US\$ (2001=100), 2001-2012

Source: Own elaboration based on Aguas Argentinas, AySA and INDEC.





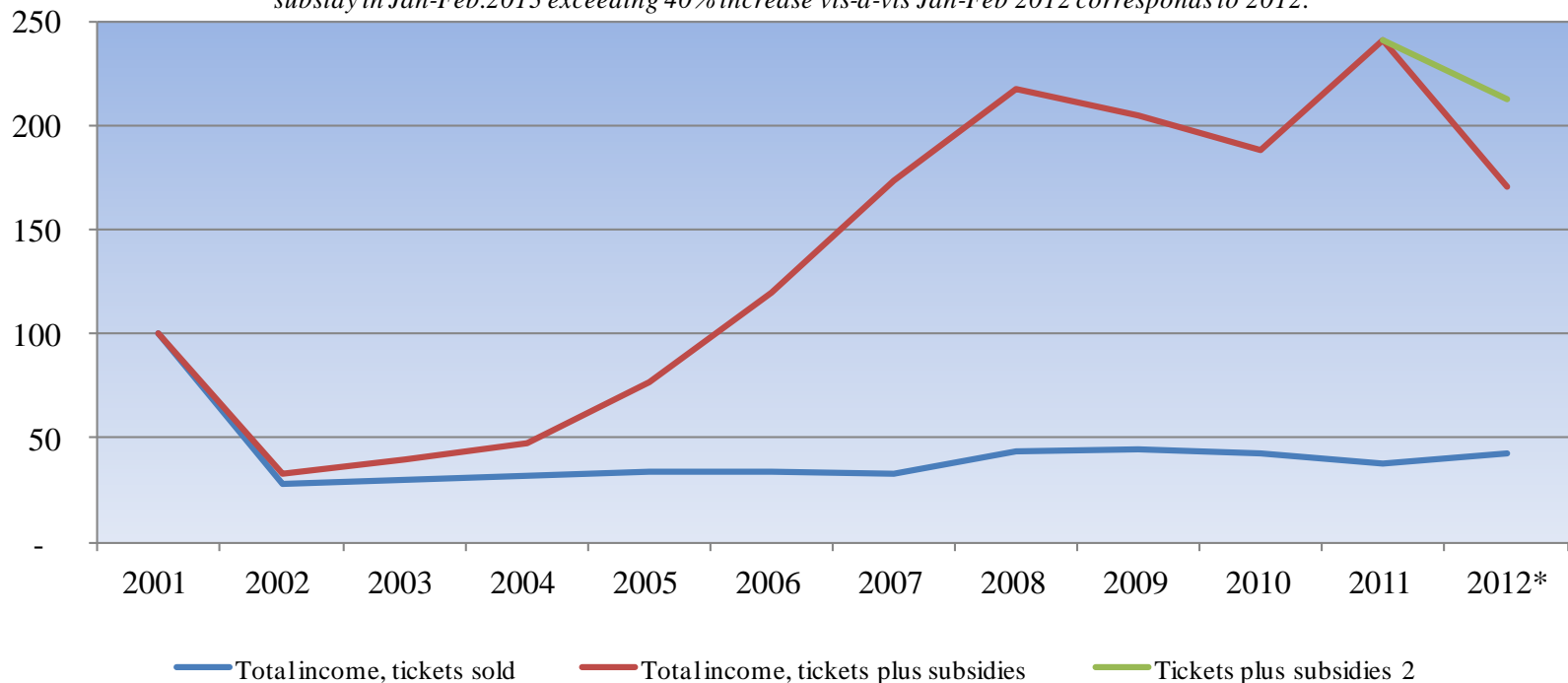
Tariffs, subsidies and costs

Railways (urban passengers) in GBA: 2011 US\$ tariff income was 60% less than in 2001, but total income was 150% higher

- 2012 not necessarily a turning point (first 2 months in 2013 –170% US\$ subsidy increase— suggest only transference of subway effect)

Average cost of passenger urban railways service: regulated tariffs and subsidies, in US\$ (2001=100), 2001-2012

Source: Own elaboration based on Secretaría de Transporte and ASAP. Number of passengers assumed constant (because variation overtime is mostly due to changing percentage of paying passengers). * Total income from ticket selling is estimated considering 127% tariff increase in subways by CABA authorities, and 45% increase in surface service in December. Green line (tickets plus subsidies 2) assumes that higher subsidy in Jan-Feb.2013 exceeding 40% increase vis-a-vis Jan-Feb 2012 corresponds to 2012.





Conclusions

1. Post-2002 regulatory policy shows huge and increasing costs
2. Today, public utilities –privately or publicly managed– provide worse and more expensive services than in 2001, even leaving aside further hidden costs and challenges
3. Who will be made responsible for the past? Who will lead the “normalization” in the future?
4. Without a complete, balanced diagnosis of the true costs of K’s regulatory policy, no true / enduring / efficient solution seems feasible



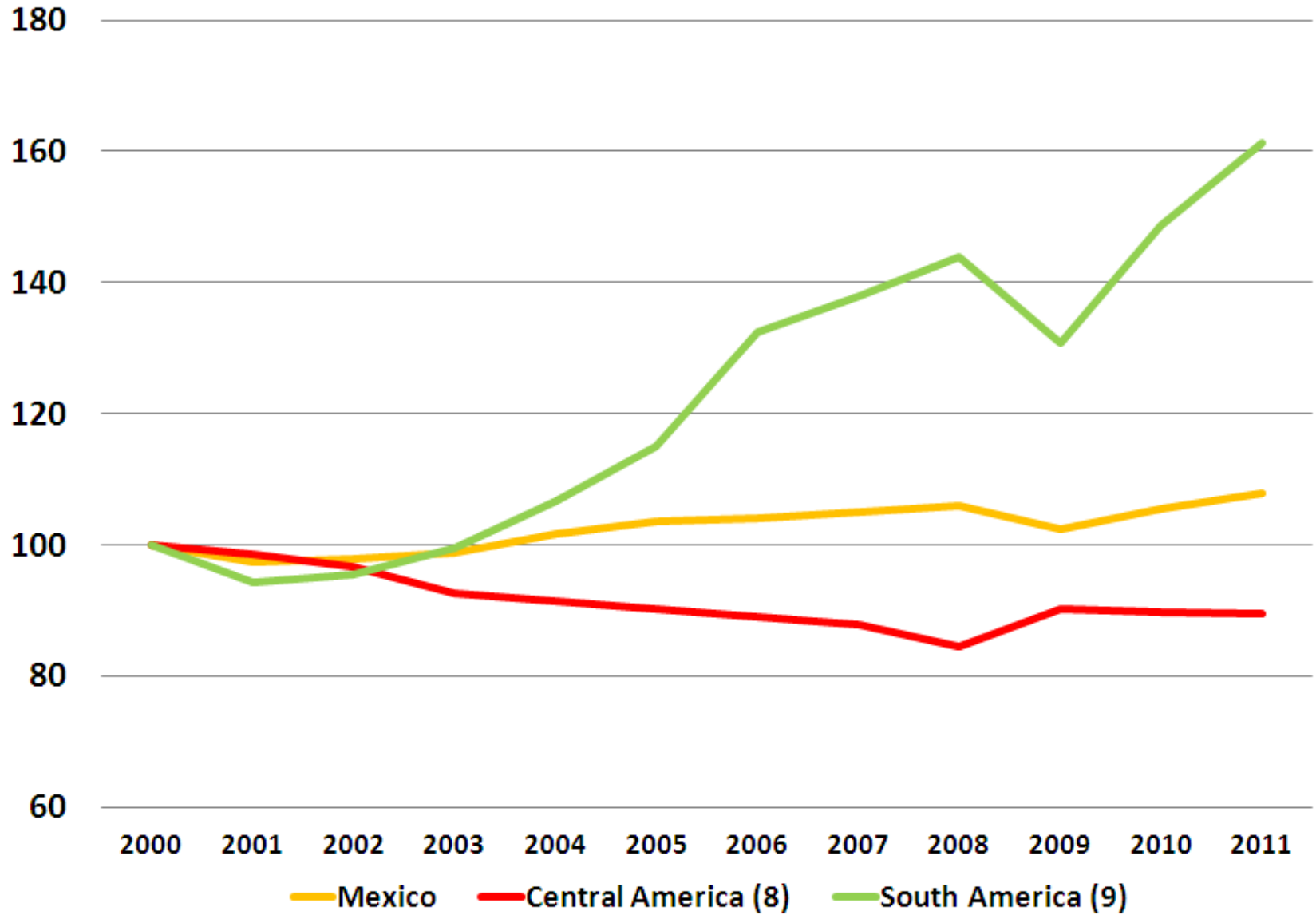
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Fiscal Policy: A trip to the past?

Daniel Artana

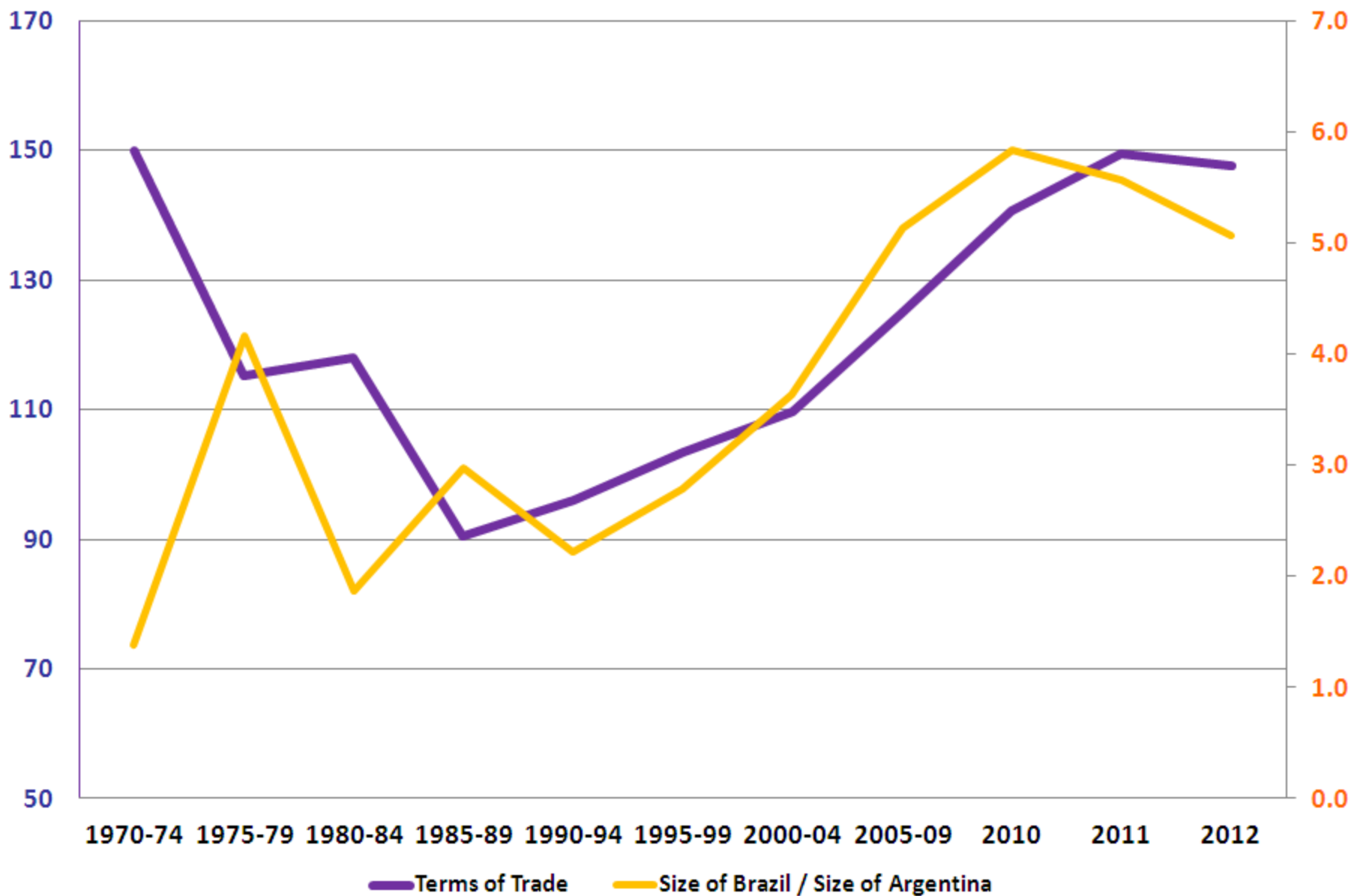
New York, April 23th 2013

Terms of Trade (2000 = 100)

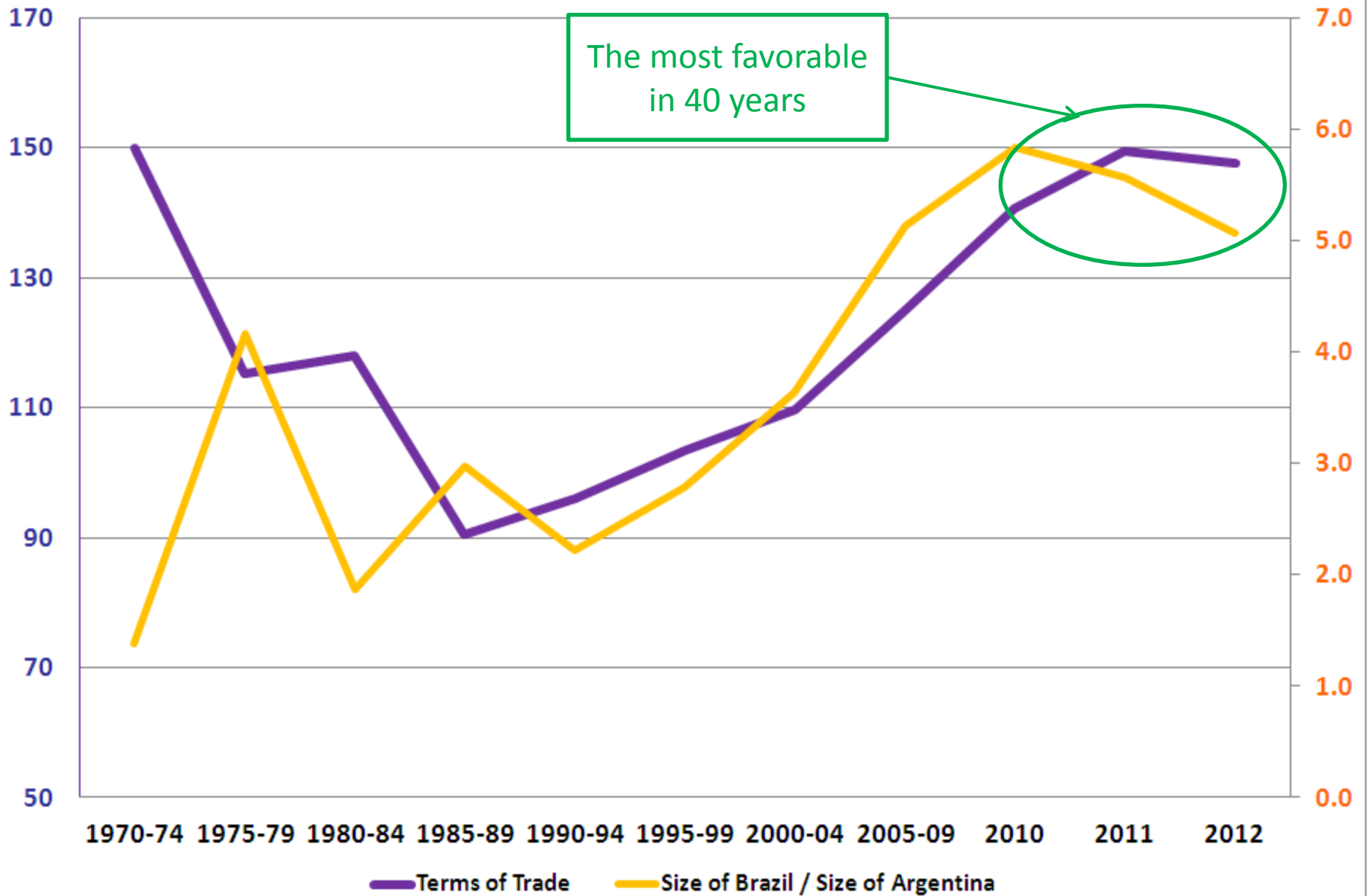


Source: Own estimates based on World Bank database

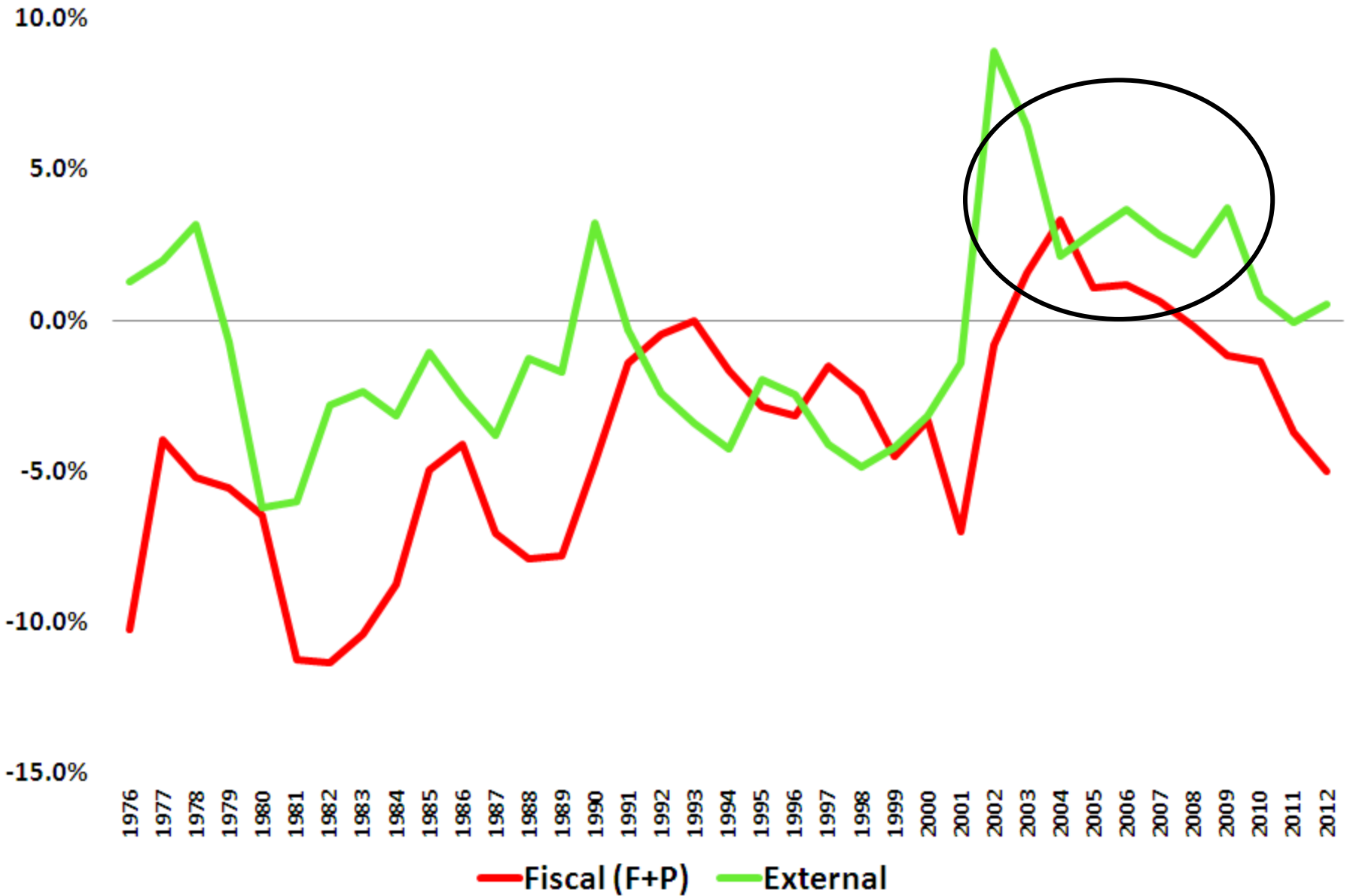
External conditions relevant for Argentina



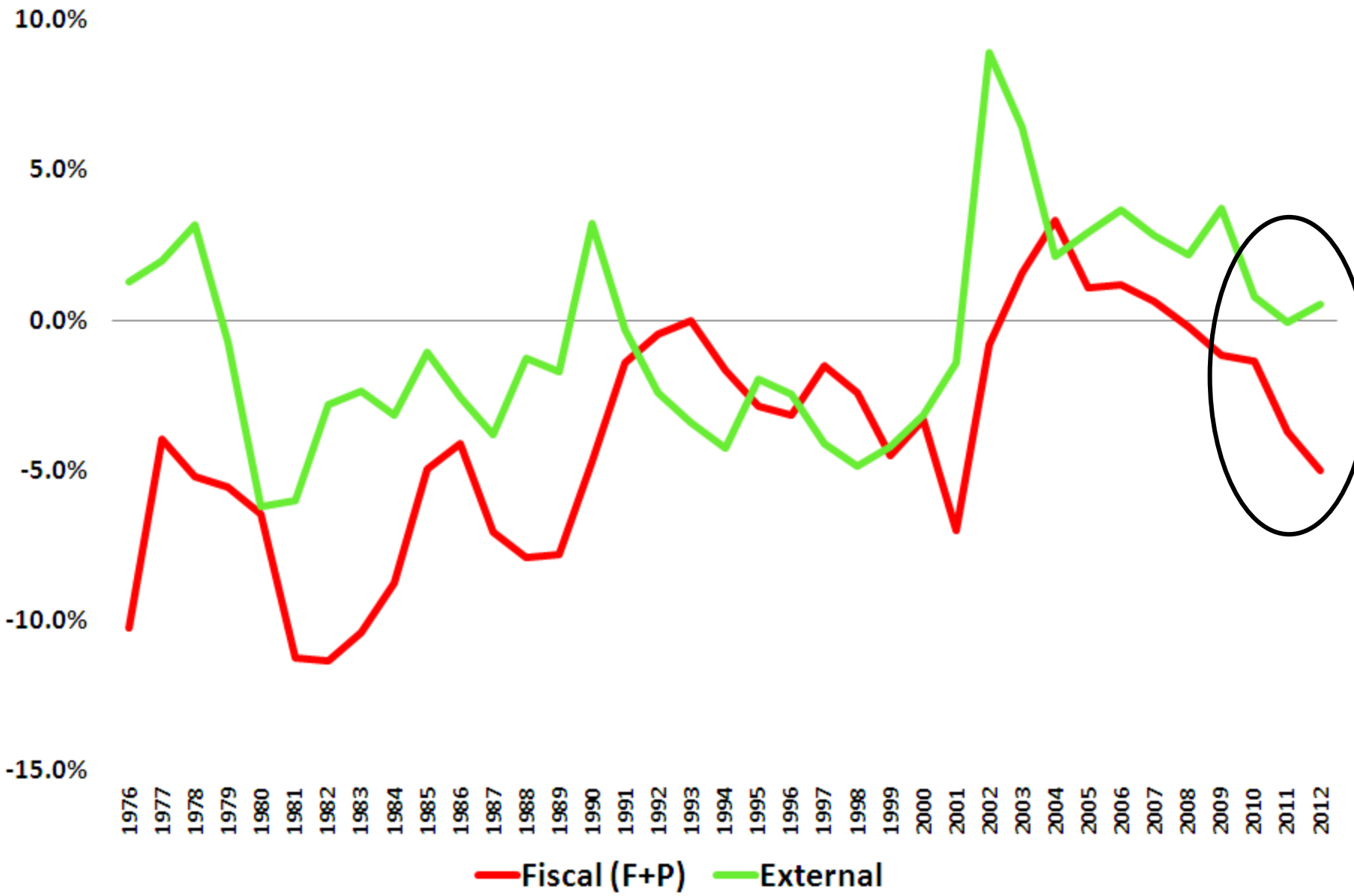
External conditions relevant for Argentina



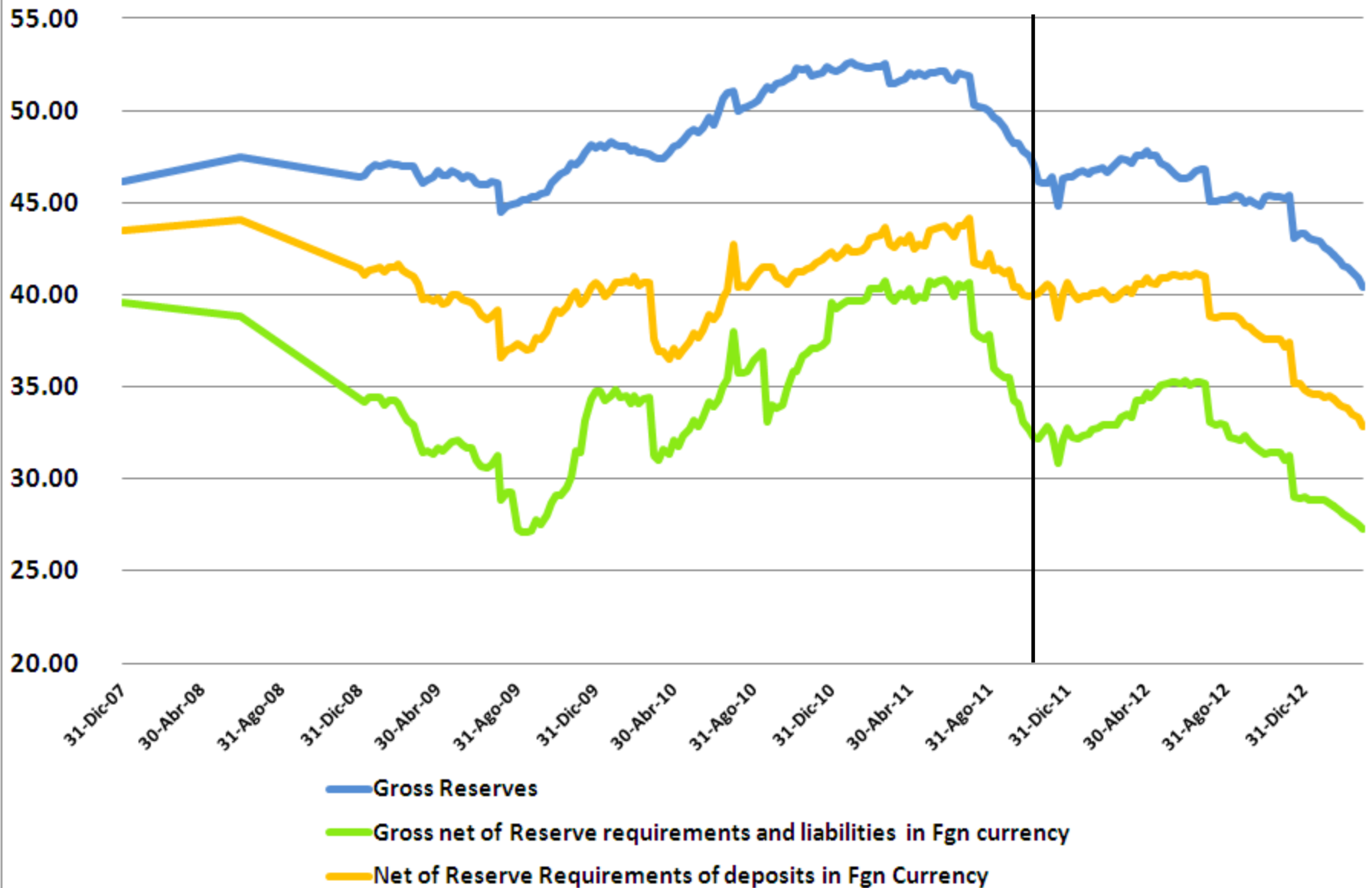
"Twin Surpluses" (% of GDP)



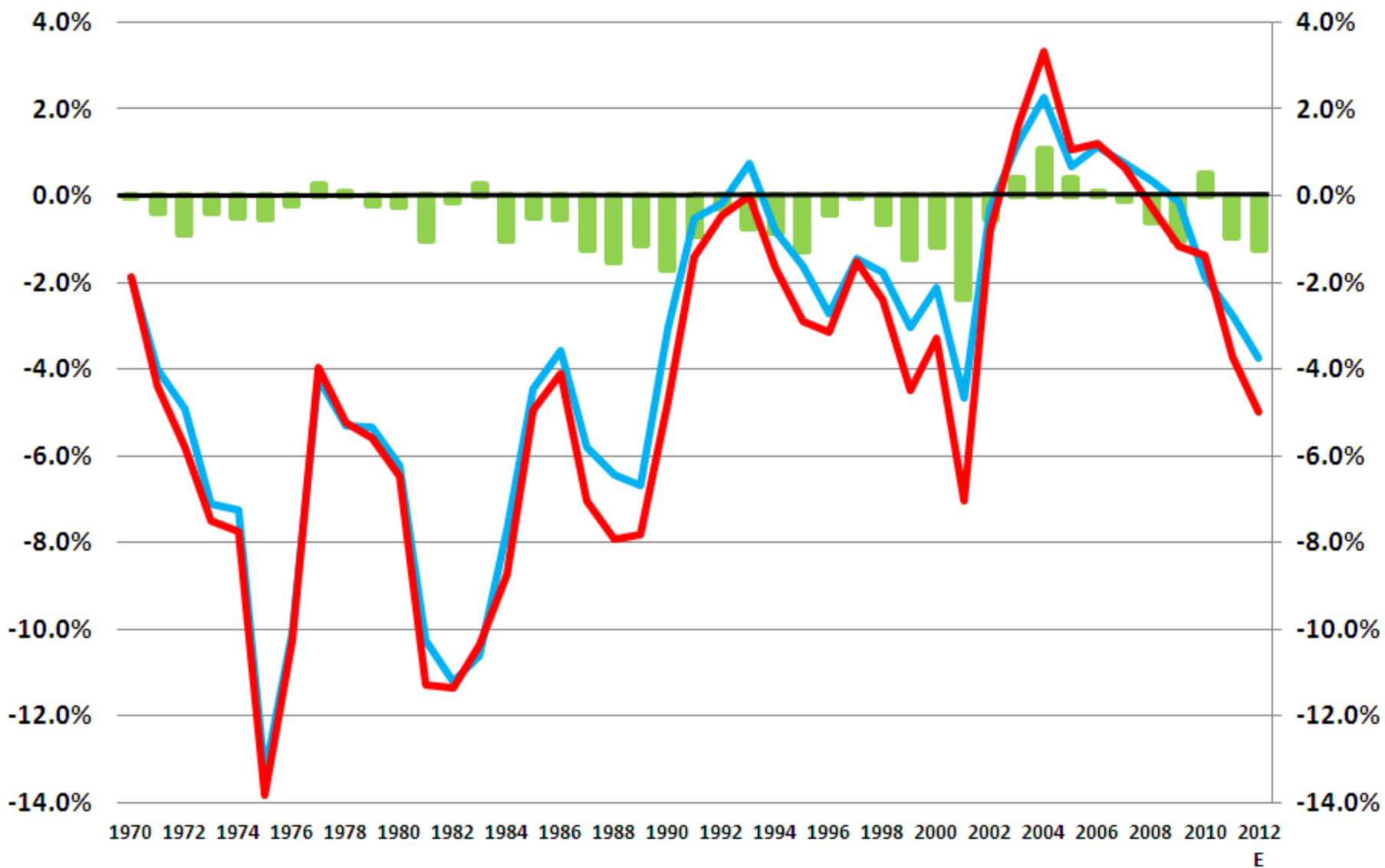
"Twin Surpluses" (% of GDP)



Central Bank Gross and Net Reserves in US\$ billion



Fiscal Balance (% of GDP)

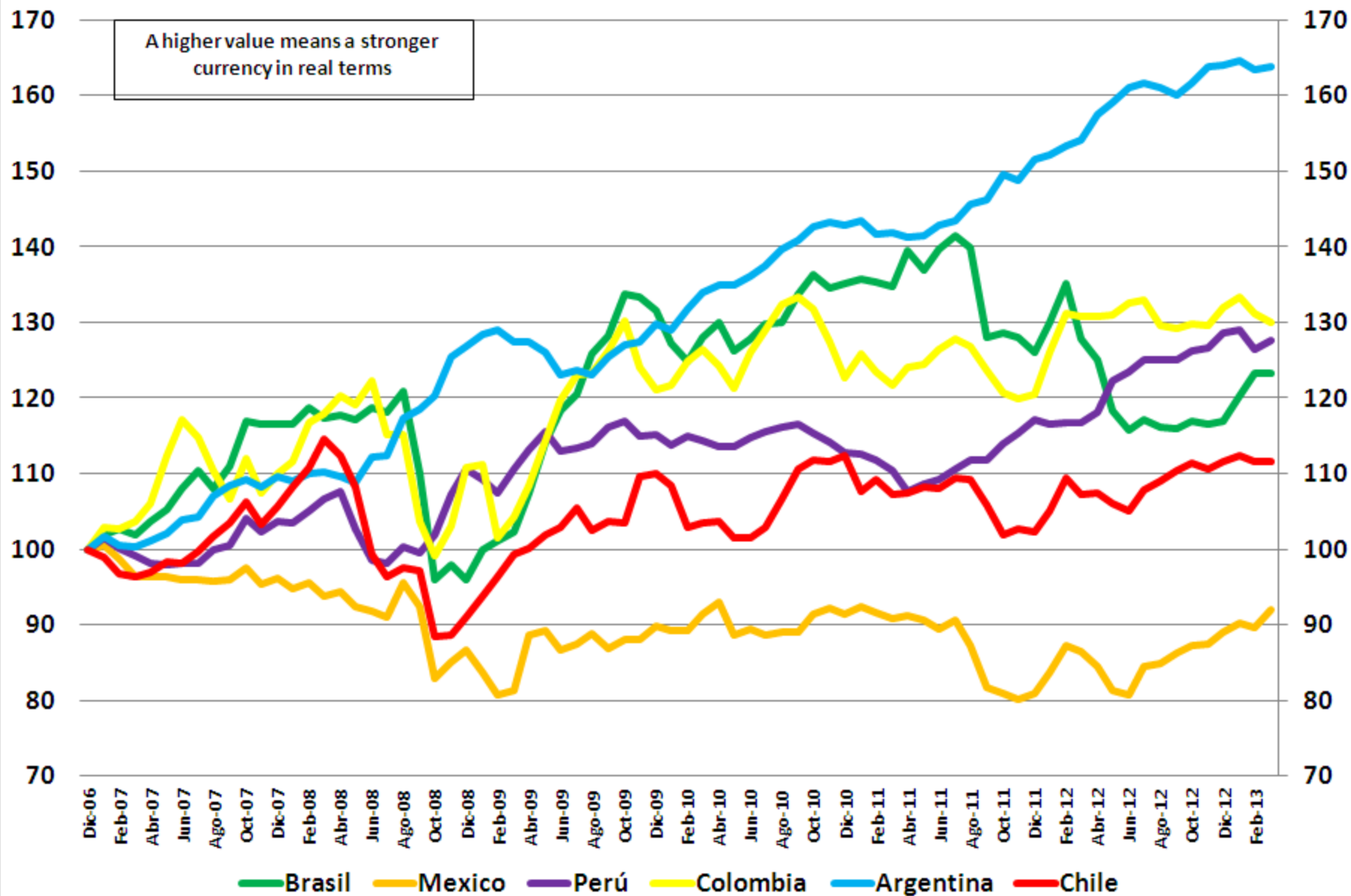


■ Provincias ■ Nación ■ TOTAL

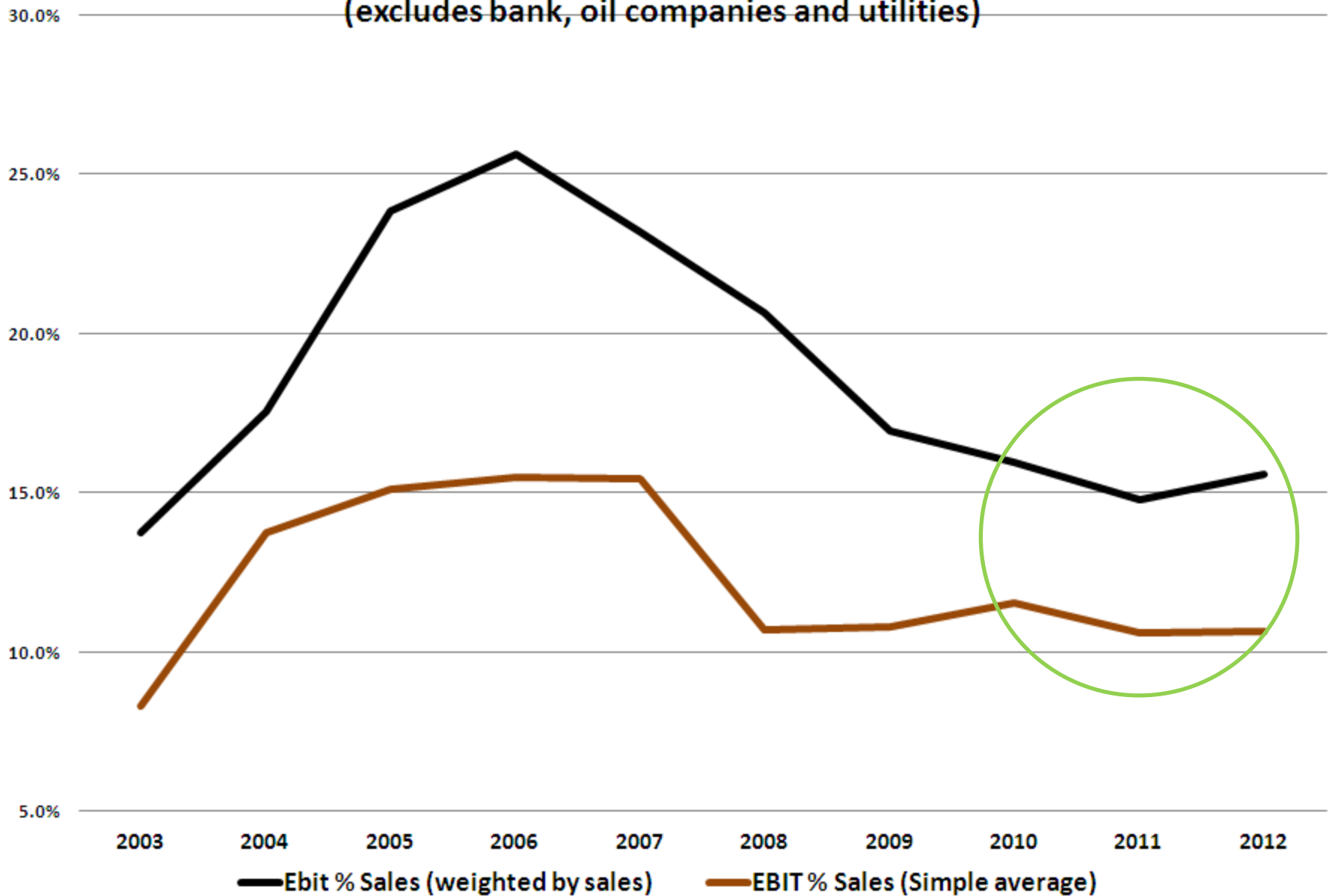
All figures in % of GDP				
	Change in Revenues 2000 - 2012	Change in Expenditures 2000 - 2012	Gross Public Debt in 2012	Fiscal Balance in 2012
Argentina	13.3	14.4	42.8	-4.6
Bolivia	11.0	6.4	34.8	0.8
Brasil	3.2	2.0	65.2	-2.1
Chile	1.1	0.8	11.4	-0.3
Colombia	4.5	2.3	32.2	-0.8
Ecuador	14.2	17.4	18.8	-2.2
Paraguay	2.7	0.4	12.9	-1.7
Peru	2.6	-1.2	19.6	1.8
Uruguay	3.5	1.9	51.2	-1.7
Venezuela	4.3	16.1	51.3	-7.4
Belize	5.8	-0.8	81.0	-2.4
Costa Rica	1.8	3.3	32.7	-4.9
Dominican Republic	0.8	3.9	31.6	-4.8
El Salvador	3.6	4.2	51.8	-4.0
Guatemala	-0.6	-0.2	24.9	-2.4
Honduras	-0.4	3.4	31.1	-3.4
Mexico	4.9	4.2	43.1	-2.4

Source: Own estimates based on WEO database

Bilateral real exchange rates with the USD



Financial conditions of firms in Argentina (excludes bank, oil companies and utilities)



Economic Growth (% yoy)

