Argentina: Laying the foundations for strong and inclusive growth

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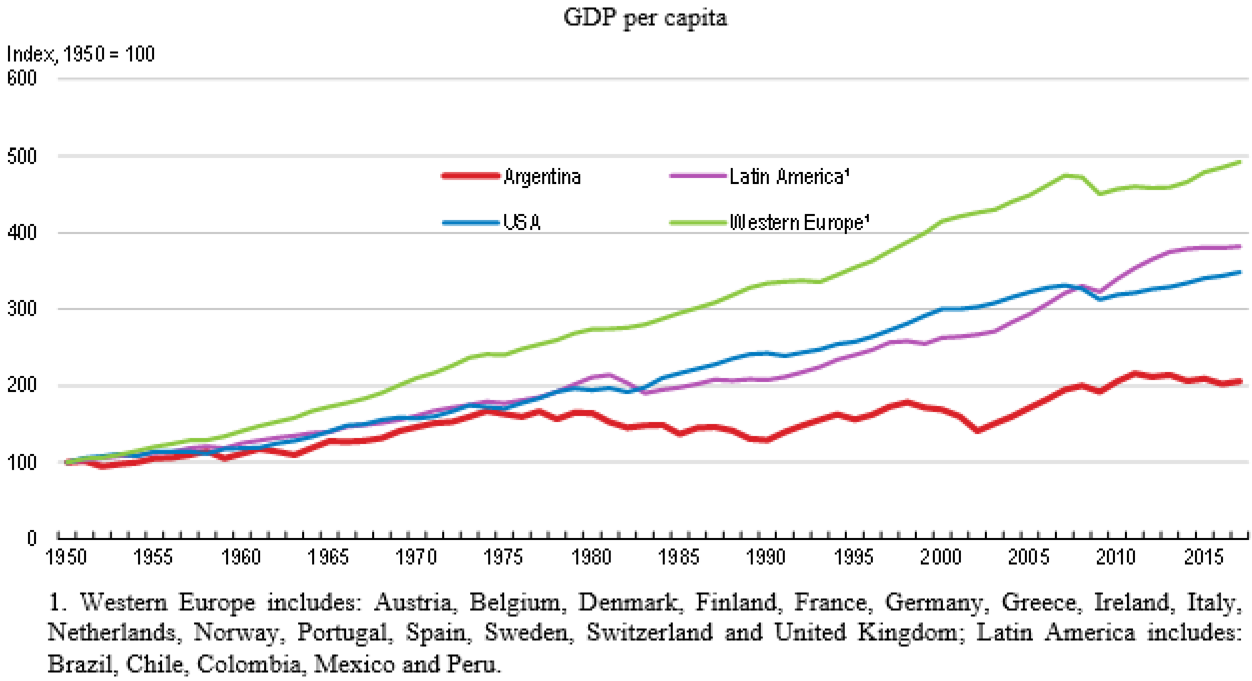
Over many decades, Argentina's economy has been held back by weak policy settings and productivity growth has stalled amidst high volatility and recurrent crises. This explains why incomes have fallen behind those in Latin American and other countries over time (Figure 1). Following years of unsustainable economic policies, significant reforms have been undertaken since 2015 to strengthen growth and well-being.

Figure 1. Argentina has lost ground relative to other economies



1. Western Europe includes: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and United Kingdom; Latin America includes: Brazil, Chile, Colombia, Mexico and Peru.
Source: OECD calculations based on Bolt and Van Zanden (2014) (see http://www.ggdc.net/maddison/maddison-project/data.htm).

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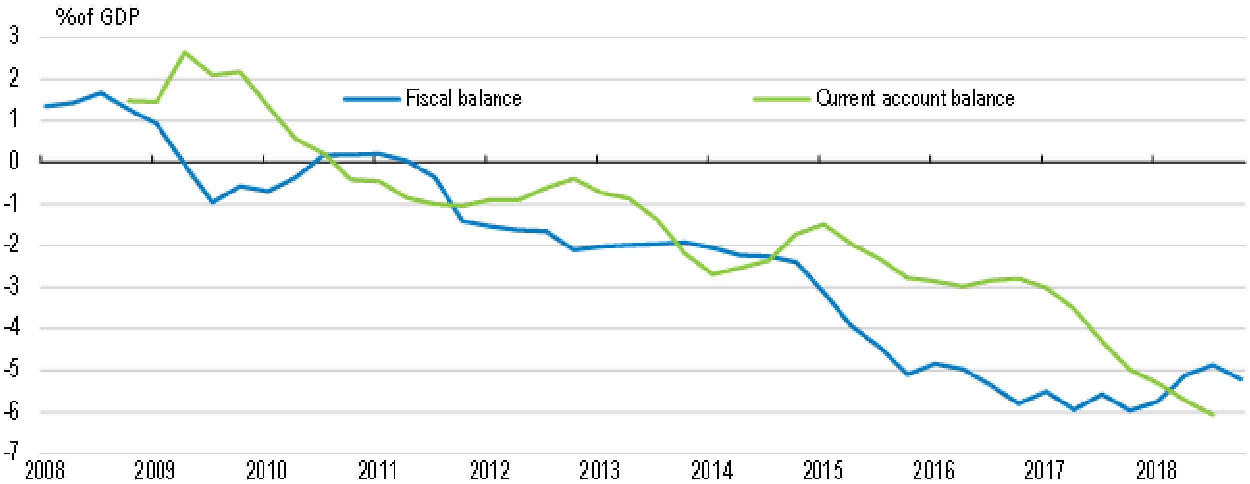
Yet, the persistence of fiscal and external imbalances, which widened until 2018, led to a build-up of vulnerabilities (Figure 2). A combination of events, including a sharp decline of currency inflows due to an exceptionally poor agricultural harvest, loss of credibility in monetary policy following subsequent revisions of inflation targets and external events triggered a sudden capital flight during 2018. The value of the currency declined by almost 50% over the course of 6 months.

Figure 2. Fiscal and external imbalances have widened



Source: INDEC, Ministry of the Treasury, CEIC.

Data: http://dx.doi.org/10.1787/888933942391
The authorities reacted in a timely and decisive manner by accelerating the fiscal adjustment, tightening monetary conditions and seeking financial
support from multilateral lenders. Although subject to risks, the new fiscal
targets are expected to put public debt on a declining trajectory if met by
future governments. However, they imply a fiscal effort of almost 6% of GDP
during 2018-2020, which is a large consolidation in historical and
international comparison. The simultaneous fiscal and monetary contractions
will take their toll on growth in the short term, but the new macroeconomic
policies also reduce vulnerabilities and lay the foundations for more solid and
inclusive growth looking forward. After all, avoiding yet

another economic crisis is a precondition for raising investment and improving living standards.

While the economy has stabilised recently, more needs to be done to ensure stronger growth and improvements in well-being for all Argentinians over the years to come. More ambitious structural reforms would have substantial growth pay-offs, according to OECD estimates. An ambitious package of reforms on product and labour markets as well better institutions and governance could raise growth by as much as 2 percentage points per year over a period of 10 years, compared to a scenario of no additional reforms. Currently, competition is weak in many sectors, and a lack of dynamism in industry structures have implied that many jobs are trapped in activities with limited potential for productivity and wage growth. Reducing both domestic barriers to entry and fostering a stronger integration into the global economy will be key for this. Among OECD member and partner countries, Argentina has one of the most restrictive regulatory settings on product markets and maintains high trade barriers. Continuing institutional progress, perhaps embodied most visibly in the restoration of trust in national statistics and the rising profile of the Anti-Corruption Office, will also be crucial.

These reforms are likely to transform the structure of the economy, which currently still reflects Argentina’s traditional inward-focus and may need to evolve to make the most of future opportunities. Over this transition, it is important for policies to protect workers, but not necessarily specific jobs or firms. Strengthening social protection, which is already quite effective in reducing income disparities, is one priority, but perhaps most importantly, offering quality training opportunities for workers who wish to seize new opportunities holds the key for mastering the transition successfully and achieve sustainable improvements in poverty and inequality.

References:

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