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FEATURED Q&A

Will New Economic Measures Boost Argentina's Macri?



Following his stunning loss in Argentina's primary last month, President Mauricio Macri tapped Hernán Lacunza (pictured) as his new finance minister. // File Photo: Province of Buenos Aires.

Q Argentine President Mauricio Macri has appointed Hernán Lacunza to replace Nicolás Dujovne as finance minister following Dujovne's resignation on Aug. 17, nearly a week after Peronist opposition candidate Alberto Fernández trounced Macri in the country's primary elections. Days earlier, Macri had announced a series of economic measures designed to help Argentines through the recession, including hiking the minimum wage, temporarily freezing fuel prices and increasing help to small businesses. To what extent will Macri's economic package alleviate citizens' economic woes in the short and long terms, and will they win him support ahead of the October presidential election? What can Argentines and international markets expect from Lacunza and Macri's government before his first term ends in December? What economic panorama will Argentina's next president inherit, and is the country's standby deal with the International Monetary Fund at risk?

A Megan Cook, lead specialist in the political and regulatory risk/strategic affairs practice at Cefeidas Group in Buenos Aires: "The package was a clear signal that the government recognizes that its economic management was a leading cause of its primary defeat. The measures alone—while certainly welcomed by struggling Argentines—are unlikely to meaningfully increase support for Macri. They may provide some short-term relief, but the anticipated pass-through effect of the peso's sharp post-election devaluation to inflation may dull their impact. Moreover, most of the measures (including tax breaks and reductions) are temporary and do not address

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TODAY'S NEWS

ECONOMIC

Argentina Imposes Capital Controls

Argentina's government imposed new capital controls, including limits on the amount of dollars that individuals can purchase or transfer abroad.

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BUSINESS

Chile's Codelco Reports 74% Drop in Profits for Year's First Half

The world's largest copper producer said global uncertainty and a fall in copper prices took a toll on profits at the state-owned company.

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POLITICAL

At Least Five Killed as Dorian Pounds Bahamas

At least five people have been killed in the Bahamas' Abaco Islands, according to Prime Minister Hubert Minnis. Hurricane Dorian relentlessly pounded the Bahamas, remaining stationary over the island nation.

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Minnis // File Photo: Government of the Bahamas.

POLITICAL NEWS

At Least Five Killed as Hurricane Dorian Stalls Over Bahamas

At least five people have been killed and thousands of homes have been destroyed in the Bahamas as Hurricane Dorian sat stationary, pummeling the islands with rain and powerful winds, The Wall Street Journal reported today. Early this morning, Dorian was downgraded to a Category 3 hurricane and as of 8 a.m. Eastern Time, the eye was located about 40 miles north of Freeport, on Grand Bahama Island. The storm was moving northwest at just one mile an hour and had maximum sustained

The hurricane may have destroyed as many as 13,000 homes.

winds of 120 miles an hour, according to the U.S. National Hurricane Center. Dorian made landfall on Grand Bahama Island Sunday night after ripping through the Abaco Islands, The Wall Street Journal reported. Bahamian Prime Minister Hubert Minnis on Monday cited the Royal Bahamas Police Force in confirming that five people had been killed in Abaco. "Teams will go to Abaco as soon as possible for a full and proper assessment and identification," said Minnis. Initial reports from the Abaco Islands indicate that "devastation is unprecedented and extensive," Minnis told reporters. He added, "We know that there are a number of people in Grand Bahama who are in serious distress ... I strongly urge the residents of Grand Bahama to remain indoors and be as safe as possible until the all clear is given." The hurricane may have destroyed as many as 13,000 homes, according to the International Federation of Red Cross and Red Crescent Societies. In the Abaco Islands, flooding brought by the hurricane is likely to have contaminated wells with saltwater, the organization added. Dorian was a Category 5 hurricane for more than 24 hours

before it was downgraded on Monday morning. On Sunday, the storm had maximum sustained winds of more than 185 miles an hour, according to the National Hurricane Center. It is one of the strongest Atlantic hurricanes on record. The storm is expected to finally move northwest today before then moving north near the east coast of Florida by Wednesday, according to the National Weather Service, The New York Times reported. Dorian's slow movement is leading to heightened fears that damage in the Caribbean may be catastrophic. "Dorian won't budge," the Weather Service said in a statement at 1 a.m. Eastern Time today.

ECONOMIC NEWS

Argentine Gov't Imposes New Capital Controls

Capital control measures came into effect Monday in Argentina, as part of the government's latest effort to prevent a depletion of foreign currency reserves amid a crisis of confidence that has driven capital outflow and sparked jitters in the financial market, La Nación reported. The new controls require Argentina's central bank to limit sales of dollars and require banks and companies to have authorization to purchase hard currency, The Wall Street Journal reported. Additionally, Argentine exporters will have to repatriate all hard currency that is generated from sales abroad. Individuals wanting to buy dollars will be limited to \$10,000 in dollars per month and will also be limited to transferring \$10,000 abroad per month. Nonresidents will be able to buy no more than \$1,000 monthly and will be prohibited from transferring money abroad through banks. The unexpected move follows attempts by President Mauricio Macri's administration last week to unilaterally extend the maturity of all short-term paper after it failed to roll over obligations as demand for government debt plummeted. "It's Macri's latest gambit to regain control of the situation," Matías Carugati, an Argentine economist, told The Wall Street

NEWS BRIEFS

Nine FARC Dissidents Killed in Colombian Military Bombing Raid

Nine dissidents of the former Revolutionary Armed Forces of Colombia, or FARC, rebel group, including a commander named Gildardo Cucho, were killed in a bombing raid in the south of the country, President Iván Duque said Friday, Reuters reported. The raid followed the release of a 32-minute video posted on YouTube in which former FARC commanders Iván Márquez and Jesús Santrich issued a call to arms. There are some 2,200 dissident forces, according to estimates, Reuters reported.

Brazil Successfully Extinguishing Amazon Fires: Foreign Minister

Brazil is successfully extinguishing the fires that have been ravaging the Amazon region for weeks, Foreign Minister Ernesto Araújo said on Friday after meeting with U.S. President Donald Trump at the White House to discuss the situation, the Associated Press reported. Brazilian President Jair Bolsonaro had said earlier that day that Araújo and his son would be meeting with U.S. officials in Washington to discuss the possibility of receiving U.S. aid to help fight the fires. However, Araújo said his meeting with Trump did not specifically mention U.S. aid.

Guatemalan Authorities Arrest Former Presidential Candidate Torres

Guatemalan police on Monday arrested former presidential candidate Sandra Torres, who stands charged with violating campaign finance laws, Reuters reported. Torres, the former wife of ex-President Álvaro Colom, was taken into custody just hours before the U.N.-backed anti-corruption commission CICIG departed the country. Last month, Torres lost the presidential election to Alejandro Giammattei.

Journal. "These are very challenging times, and people are beginning to panic. It's no surprise that the government is working on the fly, and the improvisation has some costs," he added. Argentina's central bank has been selling dollars at a more rapid pace in a scramble to contain a sharp devaluation of the peso, with reserves falling by \$12.2 billion since Aug. 9, or about 20 percent of foreign currency reserves, according to Carugati. The peso strengthened on Monday after the capital control measures were announced, and Finance Minister Hernán Lacunza said he believed the currency is set to stabilize, the Financial Times reported. The peso rose 6 percent during the day.

BUSINESS NEWS

Chile's Codelco Reports 74% Fall in Profits for First Half

Top global copper producer Codelco's profits plunged 74 percent to \$318 million in the first half of the year, Nelson Pizarro, the state-owned company's outgoing president, said on Friday, La Tercera reported. Global uncertainty and a related drop in copper prices drove the fall in profits, the company said in a statement. "In the January to June period, copper prices averaged \$2.80 per pound, 11 percent below the same period last year," the company said, the Chilean newspaper reported. "Among the main causes that explain the reduction are the upsurge of the trade war between the United States and China, the progressive moderation of global economic growth prospects and the strengthening of the dollar at the international level," it added. "In this first half, we got hit with everything," Pizarro told reporters, Reuters reported. "We started with heavy rains, and from there, the difficulties didn't let up." The company also faced labor strife at its flagship Chuquibambilla mine in northern Chile. Codelco produced 710,000 metric tons of copper at its own mines in the first half of the year, a 13-percent drop as compared to a year earlier, according to the firm.

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the structural causes of the country's current economic challenges. Indeed, the measures may prove to be more of a headache for the government than a boon. Governors concerned about their impact on provincial coffers have launched judicial challenges, investors have decried the gasoline price freeze as undermining legal certainty, and the cost of financing the package clashes with the aim of reaching fiscal neutrality this year. In this post-primaries context, Hernán Lacunza's nomination indicated not only that the government understands the electorate's frustration but also suggested a desire to ensure stability ahead of a probable presidential transition. Lacunza, who is widely respected, has made stabilizing the exchange rate, showing commitment to the IMF deal and promoting constructive dialogue with the opposition his priorities. However, recent days have shown that electoral incentives often trump concerns about guaranteeing stability. Regardless of who is Argentina's next president, he will be tasked with quickly addressing a thorny set of challenges, including rising unemployment, high inflation and the country's increasingly unsustainable debt load. Lacunza's Aug. 28 announcement that the government would seek to extend debt repayment periods (including with the IMF) is the first step toward a likely revision of the IMF deal, which does not yet appear to be at serious risk of collapsing."

A Claudio Loser, former head of the Western Hemisphere Department at the IMF and founder and CEO of Centennial Latin

America: "Argentina's economic situation today is complicated, and it can change, mainly for the worse, at any time during the next several months. The primary elections were not binding but gave a strong and surprising signal about the likely winner in October, the Peronist Alberto Fernández. However, Argentina has two electoral bodies: the national voters and the financial markets. The market reaction was strong, if not violent,

initially, but with increasing tensions, and the very recent announcement of a forced debt restructuring on a large portion of the domestic debt, conditions have deteriorated. This clearly shows the constraints that any elected candidate will face, unless they want to become isolated and inward-looking again. Unfortunately, it is likely to happen as Alberto Fernández in recent days accused the IMF and Macri of wasting the country's scarce resources, financing massive capital flight and creating problems for the economy. Fernández at times sounds conciliatory, but now he has taken a more confrontational approach. President Macri had announced some popular-sounding measures that have low cost but moderate impact. The new minister of finance can steer the economy up to the October election, even with the new measures, if the IMF assures its continued support and disburses some additional \$5.4 billion in September. A few days ago, that seemed likely. The new measures and continued market uncertainty make that outcome much iffier, even though the IMF has been conciliatory and has indicated that it supports Argentina."

A Horacio Verbitsky, president of the Center for Legal and Social Studies in Buenos Aires: "The relief measures are insufficient, come too late and won't repair in two months the damage done in three and a half years. The hypothesis of an electoral recovery for the incompetent Macri is fantasy literature. The IMF's recessive program is untenable. Its loans were not applied to productive investment, but rather to the formation of assets abroad, a phenomenon politically called capital flight. The parallelism between both lines is impacting. For this reason, Macri's government only subsisted on the artificial respirator that the IMF placed for him at Trump's request. If the IMF provides the quota of \$5.421 million forecasted for mid-September—something that has not yet been decided—Macri could stay on until the

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October election and, maybe, until his term ends in December. Otherwise, he will follow the fate of former Presidents Alfonsín and De la Rúa, who left the presidency before their terms ended when the IMF and the World Bank cut their financing. Macri said it would be easy to contain inflation, and he 'brought it down' by tripling it. He promised a flood of investment, and it 'increased' by falling to a third of its previous level. This left 40 percent of the population in poverty and desperation. Argentina's society is different from the Spanish or Greek ones, and it has a capacity of resistance that Macri and his allies did not count on. Debt must be reprofiled sooner rather than later, and the priority is the reactivation of the economy, which has succumbed to a deep stagflation."

A **Andrés Asiain, director of the Scalabrini Ortiz Center for Economic and Social Studies in Buenos Aires:** "The ruling party's resounding electoral defeat accelerated the crisis phase of Argentina's cycle of indebtedness and speculation under Mauricio Macri's administration. In a desperate attempt to save the election, the government announced a package of populist measures. Even so, the announced transfers will not compensate for the foreseeable deterioration of income caused by the peso's devaluation and inflationary impact, so we do not expect it to lift consumption and, much less, to shift the political course. With no chance of re-election, Macri's goal is to finish his term—a task that is not simple amid the serious economic situation and the fact that no non-Peronist president has finished his term since the return to democracy. To do this, he instructed Lacunza to try to contain the peso's value since a new run could unleash an uncontrollable economic and social situation. The task is not simple, and it has already required a partial debt default and the introduction of measures that limit the purchase of dollars for companies and large savers. It remains to be seen how the

massive outflow of deposits from banks can be contained. The agreement with the IMF seems to have fallen, and the next disbursement is on pause, a fact that was hidden under the euphemism of 'reprofiling' of the debt with the lender. Moreover, the economy left for Alberto Fernández to inherit could not be more ruinous, a hyper-indebted economy with a central bank empty of reserves."

A **Jorge Castro, president of Instituto de Planeamiento Estratégico:** "Argentina is experiencing a deep political, financial and monetary crisis following Macri's 15-point defeat in the primary vote. The reason for the crisis is the Wall Street-based international financial system's belief that Macri's political power disappeared after Aug. 11 and that a victory for 'kirchnerismo' in October would be absolutely negative. Thus, there was a devaluation of 33 percent in three days, with the value of Argentine companies in New York plummeting 30-60 percent, and a country risk that reached nearly 2,000 basis points—in line with default levels. Consequently, the price of insurance against default of Argentine debt rose from 57 percent to 75 percent during the weekend of the vote. The international financial system presumes Argentina will default, or that it has already. The underlying problem is that Argentina lacks national currency, and therefore domestic and capital market savings, and all savings and investment operations are carried out in U.S. dollars. The historical novelty this year is that there are two powerful machines to create value, bring genuine dollars and attract investments: the agricultural sector and Vaca Muerta. This is the key difference between Argentina's 2019 crisis and the 2001 collapse."

Editor's note: The commentaries above, except for Andrés Asiain's, were submitted to the Advisor before Argentina's government announced new capital controls on Sunday.

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