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FEATURED Q&A

Why Is Argentina's Gov't Tightening Currency Controls?



Argentine President Alberto Fernández's government took new action last month to restrict access to U.S. dollars in the South American nation. // File Photo: Argentine Government.

Q Argentina's central bank on Sept. 15 tightened controls on purchases of dollars in the foreign exchange market, as well as transactions involving bonds denominated in the U.S. currency and credit card purchases made in foreign currency. Why is President Alberto Fernández's government restricting access to U.S. dollars now? Has Fernández taken the right action, and what effect will these policies have on Argentina's economy? How well have Argentine currency controls worked in the past, and what lessons do they offer for the future?

A Carla Selman, senior analyst and deputy head for Latin America country risk at IHS Markit: "President Alberto Fernández is deepening capital controls because the central bank's reserves are falling significantly. Just as it has happened in the past (particularly under the government of Cristina Fernández de Kirchner), capital controls are widening the gap between the official and unofficial dollars. This is also affecting exporter sectors, mainly agribusiness, mining and energy. Agribusiness in particular has had it quite tough, as it already faces very high export taxes ('retenciones'), with soybeans taxed at 33 percent. This translates into the soybean exporting sector receiving approximately 50 Argentine pesos per U.S. dollar, while the 'blue' (unofficial) dollar is at 140 pesos per dollar (and the official one at 75 pesos per dollar). Now the government is considering mitigating measures for exporter sectors, in order to bring dollars into the economy. For agribusiness, in particular, it is considering a temporary reduction of the export tax and other tax breaks, in order to encourage producers to

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TODAY'S NEWS

ECONOMIC

British Court Rules in Maduro's Favor Over Gold

A British appeals court overturned a previous decision denying Venezuelan President Nicolás Maduro's government access to \$1.8 billion in gold stored at the Bank of England.

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BUSINESS

Didi's Brazil Unit Partners With WhatsApp

A partnership between Brazil's unit of Chinese ride-hailing service Didi Chuxing and WhatsApp will allow customers to request rides via the messaging platform.

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POLITICAL

Mexico Reports Increases in Covid Cases, Deaths

Mexico reported sharp daily increases in its numbers of new coronavirus cases and deaths, but Deputy Health Minister Hugo López-Gatell said a change in methodology led to the increases, which included cases and deaths dating back to June.

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López-Gatell // File Photo: @HLGatell via Twitter.

POLITICAL NEWS

Mexico Reports Sharp Increases in Covid Cases, Deaths

Mexico's Health Ministry on Monday reported sharp increases in its number of new Covid-19 cases and deaths, adding that a change in methodology led to the new records, Reuters reported. On Monday, the ministry reported 28,115 new cases and 2,789 new deaths, surpassing the previous daily records of 9,556 cases and 1,092 deaths. However, the ministry said the numbers reported on Monday include cases and deaths dating as far back as June. The country's deputy health minister, Hugo López-Gatell, said the numbers reported on Monday were a one-off event. However, the country's actual number of cases and deaths from the novel coronavirus are likely much higher than the reported numbers because of a lack of testing, Reuters reported. Mexico has more than 789,000 reported cases of Covid-19 and more than 81,000 reported deaths, according to Johns Hopkins University. On Sept. 27, López-Gatell said definitive data on the actual number of Covid-19 cases and deaths in Mexico won't be available for "a couple of years," the Associated Press reported. He said the country's statistics institute will be tasked with determining the actual tolls. He added that the true scale of the pandemic "cannot be measured." Some parts of the country, including Mexico City, have started their own counts, finding an "excess" number of deaths that were likely caused by Covid-19. The rates of new Covid-19 cases and deaths have been declining in parts of Latin America, including

CORRECTION

In the Oct. 1 issue of the Advisor, commentator Frank Calzon was incorrectly identified as the executive director of Center for a Free Cuba. He is in fact that organization's former director as well as a former Washington representative of Freedom House.

Mexico. The country recorded fewer than 600 deaths a day for the past six weeks, The Wall Street Journal reported last week.

ECONOMIC NEWS

British Court Rules in Maduro's Favor in Dispute Over Gold

A British appeals court on Monday sided with Venezuelan President Nicolás Maduro's government in a dispute over the control of \$1.8 billion worth of Venezuelan gold stored at the Bank of England, The Guardian reported. In July, a British court found that Britain's recognition of opposition leader Juan Guaidó as Venezuela's legitimate president meant that the



Maduro // File Photo: @NicolasMaduro via Twitter.

gold could not be released to Maduro's government. Venezuela's central bank had sued the Bank of England in May, seeking to gain control of the gold, which the central bank has said it will sell solely in order to pay for Venezuela's response to the coronavirus pandemic. Monday's decision by the appeals court overturns the July court decision and sends the issue to be examined by a British commercial court, The Guardian reported. The appeals court also suggested that Britain's Foreign Office clarify the issues including whether the British government recognizes Guaidó "for all purposes and therefore does not recognize Mr. Maduro as president for any purpose." If the Foreign Office does not clarify the issue, then the commercial court must decide on the gold dispute on its own. Though Britain recognizes Guaidó as Venezuela's president, it also still has diplomatic

NEWS BRIEFS

Hurricane Delta Takes Aim at Mexico's Yucatán Peninsula

Hurricane Delta strengthened to a Category 2 hurricane early this morning as it pushed toward Mexico's Yucatán peninsula, where it is expected to make landfall by Wednesday, CNN reported. The storm could intensify further, strengthening to a Category 4 hurricane before it hits land, said CNN meteorologist Michael Guy. From there, Delta could turn toward the U.S. Gulf Coast. As of 8 a.m. Eastern Time today, the storm was located about 370 miles east-southeast of the Mexican island of Cozumel, heading west-northwest at 15 miles an hour, with maximum sustained winds of 110 miles an hour, according to the U.S. National Hurricane Center.

Chilean Authorities Detain Officer Suspected of Pushing Teen Off Bridge

Chilean authorities have detained a police officer suspected of attempted murder after he allegedly pushed a teenage demonstrator off a bridge during protests last week, the country's Prosecutor's Office said, CNN reported Monday. Videos of the incident in Santiago last Friday have gone viral in Chile, sparking anger and more demonstrations over the weekend. The video appears to show a brawl between the police officer and the boy, who then falls headfirst over the side of the bridge.

U.S. Bankruptcy Court Approves Avianca's Proposed Financing Plan

A U.S. bankruptcy court has approved flagship Colombian carrier Avianca Holdings' proposed financing plan of more than \$2 billion to help the airline through its Chapter 11 restructuring, the company said Monday, Reuters reported. Avianca had filed for bankruptcy protection in the United States in May.

ties with Maduro's government, The Associated Press reported. Britain's government recognizes Maduro's ambassador, who has control of the Venezuelan Embassy in London. And the British ambassador to Venezuela is still posted in Caracas. Vanessa Neumann, whom Guaidó named as his ambassador to Britain, played down Monday's appeals court ruling, saying the court was asking for clarification from a judge that has already ruled in Guaidó's favor, the AP reported. "What remains clear is that the British court is not yet going to hand over the gold that belongs to Venezuelans to the Maduro regime," Neumann told reporters in a call.

BUSINESS NEWS

Didi's Brazil Ride Service 99 Partners With WhatsApp

Brazil's 99, a local ride-hailing service of China's Didi Chuxing Technology, has partnered with WhatsApp to allow users to request cars directly on that platform, without the need for another app, Reuters reported Monday. The service, initially only live in four cities of São Paulo state, will gradually be extended to other locations across the country in the coming weeks, and it is expected to be available in all of Brazil by the end of the year, according to Livia Pozzi, director of operations at 99, *Diário do Comércio* reported. The partnership is the first of its kind in the world for Didi, China's largest ride-sharing company, the firms said. The service could give 99 an advantage against U.S.-based Uber, the market leader in Brazil, Reuters reported. The move is designed for low-income Brazilians whose smartphones have less capacity to download apps as well as regions in the country where mobile phone services are weaker, said Pozzi. "It will allow access to the service for a larger universe of people who will no longer need to download our app to order their rides," she added, Reuters reported. WhatsApp is hugely popular in the South American country, with 120 million active users in a population of 210 million.

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sell their stock (storing their grain while waiting for a better exchange rate is a common practice). The agreement the government reached with bondholders in August pushes the debt burden to coming years for a new government to deal with. And while the country's macroeconomic distortions that have taken Argentina to default in the past stay in place, the risk of a new default in the future remains."

A **Agustín Crivelli, economist, professor and researcher at the University of Buenos Aires:** "The recent decision to tighten exchange controls and currency management in Argentina is part of the need to take measures in order to avoid tension in the exchange rate market. The problem of capital flight in Argentina does not respond to certain economic policies, rather, it is a structural problem. Argentina has a level of capital flight that is similar to

“ It is necessary to have an adequate management of currencies through the use of exchange controls.”

– Agustín Crivelli

that of all Latin American nations, with some particular conditions, such as dollarization and withdrawal of banknotes by the middle classes, a situation that does not happen in the rest of the countries in the region. This leaves Argentina with a better margin to face the phenomenon of capital flight. However, it is also true that when the exchange rates are high, it is not desirable to use foreign exchange to finance capital flight. Therefore, it is necessary to have an adequate management of currencies through the use of exchange controls. We must not forget that the recurring crises in Argentina largely responded to the problem of external restrictions, which is precisely what exchange

controls seek to avoid. To achieve the goal of a higher level of development, managing currencies through exchange controls must be absolutely normal, functional and useful, which is why it is expected to be maintained over time, administered in the best way possible."

A **Alex Schober, senior analyst for the Southern Cone at Ducker-Frontier:** "Argentina tightened capital controls ('el cepo' in Spanish) on Sept. 15 under the guise of protecting the official exchange rate amid scarce international reserves. Tightening capital controls was one option that the Central Bank of Argentina (BCRA) could have utilized to temporarily slow down draining reserves. However, the onerous nature of the measures—absent of any credible longer-term plan with monetary and exchange policy—will create significant business and overarching economic risks. The new round of capital controls upends future expectations and deteriorates policy credibility. It adds on to a series of decisions by authorities to change the rules of the game from one day to the next. These unanchored expectations will likely impair Argentina's ability to attract the investment needed to pull the country out of its deep recession. Luckily, negotiations with the IMF will require restoring some macroeconomic orthodoxy; therefore, Argentina could start gradually loosening the measures by the end of next year. On the macroeconomic front, severed dollar access will continue to drive up the unofficial exchange rates. Businesses and consumers alike will choose to participate in the unofficial market more frequently, which will inevitably put upward pressure on prices. The widening gap between the parallel exchange rates also harms exporters who must export at the official exchange rate and obtain inputs at an elevated price. This could lead to more hoarding by exporters in the short-term like we have seen many times with agricultural companies. In sum, this

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makes the hardened 'cepo' counterproductive because exports are the primary source of hard currency for the country."

A **Lisa Schineller, managing director and lead analyst for sovereign and international public finance ratings at S&P**

Global Ratings: "BCRA's tightening of regulations accessing foreign exchange in recent weeks has occurred amid increased pressure on the official and parallel exchange rate markets, and as international reserves have declined. The latest moves build on foreign exchange restrictions put in place last year and tightened in May—ahead of the

“ Mixed signals on policy proposals within the government ... contribute to the lack of confidence.”

— Lisa Schineller

resolution of the commercial debt restructuring. Despite the successful \$100 billion local and international law sovereign commercial debt restructuring, uncertainties on the path to economic recovery and curtailment of inflation, amid the government's planned fiscal trajectory that implies still-high local market financing needs, are weighing on confidence in financial markets. Mixed signals on policy proposals within the government, including management of foreign exchange policy, the absence of an overarching economic program to tackle structural challenges and pending negotiations with the IMF on a new program all contribute to the lack of confidence. The foreign exchange market pressures, however, also reflect a longstanding preference for the U.S. dollar, rather than the peso, as a store of value by Argentines and various leakages in the myriad of foreign exchange restrictions by an innovative private sector. Given the combination of economic and policy uncertainties and preference for

the dollar, the effectiveness of the restrictions alone cannot rebalance the foreign exchange market. This will likely also require broader policy clarity and consistency by the administration to strengthen the economy and Argentina's export base."

A **Nicolás Saldías, senior researcher at the Wilson Center's Latin America Program and Argentina Project and a Ph.D candidate at the University of Toronto:**

"Since the primary elections in August 2019, Argentina has lost more than \$23 billion in reserves. President Mauricio Macri's unexpected defeat led investors to panic, pulling out billions of dollars and forcing Macri to reimpose unpopular capital controls ('el cepo') in September 2019. Since coming to office, President Alberto Fernández has gradually increased capital controls. He imposed a foreign exchange tax of 30 percent, then he reduced the dollar amount individual Argentines could exchange to a mere \$200 a month, among other measures. Even the successful resolution of the debt restructuring in August has failed to reassure Argentines that the government has a viable economic program. As a result, the parallel ('blue') rate has surged and is now almost double the official rate. Consequently, exporters are hesitant to export and provide dollars to the central bank, while those who want to buy dollars are rushing to get what they can before capital controls increase or a devaluation wipes out their purchasing power. There are also incentives for arbitrage that increase demand for dollars. The government is aware that its policy is counterproductive, and they are discussing ways to incentivize exporters with lower taxes, but this is a Band-Aid solution. Ultimately, the country needs a clear economic program and one that the Peronist government will be loath to implement. These include a more rapid devaluation, lowering spending and taxes, along with a hard money monetary policy that keeps Argentines saving in pesos."

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