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THEDIALOGUE

FEATURED Q&A

Will Argentina's Minimum Wage Hike Help Workers?

Argentine President Alberto Fernández's government this month announced an increase in the country's minimum wage. // File Photo: Argentine Government.

Q Argentina's government will raise the country's monthly minimum wage, to 45,540 pesos ($389) in June and to 47,850 pesos in August, the Economy Ministry announced on May 10. The increase of nearly 17 percent in June comes amid an estimated inflation rate of 55 percent over the past year, The Wall Street Journal reported. What are the government's main reasons behind the minimum wage increase, and how much will it help Argentine workers? How well are Argentina's government and central bank dealing with rising prices, and to what extent will the minimum wage hike worsen inflation? Which types of businesses and sectors of the economy will be most affected by the minimum wage increase?

A Gabriel Torres, sovereign analyst at Moody's Investors Service: "Inflation in Argentina has been rising in recent months from already high levels. After ending at close to 51 percent in 2021, the 12-month trailing inflation rate as of April 2022 is now almost 60 percent. The annualized inflation of just the last three months exceeds 90 percent. With this inflation acceleration, the government has no option but to attempt to reduce the impact on wages and limit the loss of purchasing power, even if it adds to the ongoing wage-price spiral. Reducing the inflation is at best a multiyear process and requires coordination across all macroeconomic policies, not just monetary but also fiscal, as well as potential wage agreements, to limit wage price pressures. The recently signed agreement with the IMF provides Argentina with an opportunity to implement a medium-term program and requires, among other things, gradual declines in the government's

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TODAY'S NEWS

ECONOMIC

Britain Hopes to Conclude Talks This Year on Joining CPTPP

Britain' international trade secretary said the country is hoping to conclude discussions this year on joining the 11-nation CPTPP trade bloc, which includes Mexico, Peru, Japan and Australia.

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Shell, Porto do Açu to Build Green Hydrogen Plant in Brazil

The oil major and the Brazilian industrial and port complex are planning to construct the facility in Rio de Janeiro state.

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U.S. First Lady Touts Ties With Latin America During Trip

U.S. First Lady Jill Biden stressed the importance of U.S.-Latin America relations as she began a three-country tour of the region.

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Biden // Photo: Ecuadorean Government.

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POLITICAL NEWS

U.S. First Lady Touts Latin America Ties on Visit to Region

At the beginning of her three-country tour in South and Central America, U.S. First Lady Jill Biden on Thursday touted the importance of U.S.-Latin America relations, CNN reported. In a speech at Ecuador's Carondelet presidential palace in Quito, Biden said she and her husband, U.S. President Joe Biden, are committed to Latin America. "You know, Joe and I hope that you know that he cares deeply about you, and I do too. And that's why I'm here today," Biden said alongside Ecuadorean President Guillermo Lasso, CNN reported. "The United States is committed to Ecuador," she added. The first lady departs today for Panama before concluding the six-day tour in Costa Rica. Biden's trip to the region comes ahead of next month's Summit of the Americas, which the United States is hosting for the first time since 1994. U.S. officials have said the leaders of Cuba, Nicaragua and Venezuela will not be invited to the summit in Los Angeles because of their human rights records. Mexican President Andrés Manuel López Obrador has said that he will skip the summit if not all countries in the Americas are invited. On Thursday, Nicaraguan President Daniel Ortega said his government was "not interested" in attending the summit, Reuters reported. Nicaragua was previously informed that it would not be invited, a person familiar with the matter told the wire service. In her speech in Quito, Biden said she and the president are looking forward to the gathering. "In June, Joe and I are excited to invite leaders and their spouses to Los Angeles, California, for the Summit of the Americas. At this summit, our leaders have a very ambitious agenda, to come together on things like achieving an equitable and sustainable future," she said, CNN reported. Biden also warned of the dangers of authoritarianism in the region. "If one nation is vulnerable to … authoritarianism … or poverty, it won't be long before those same problems reach us all," she said. "But when nations here in South America embrace democracy, you become a living proof that governments can deliver for the people that they represent—inspiring others to follow," Biden added. In a **Q&A** published May 10 in the Advisor, former Mexican Ambassador to the United States Roberta Lajous said leaders at the summit should address threats to democracy in Latin America. "Democracy and the rule of law are in peril throughout the region, an issue that must be addressed," Lajous told the Advisor. The Bidens' daughter Ashley had been scheduled to accompany the first lady on the trip, but stayed back after testing positive for Covid-19 on Wednesday, just before she was to depart for Ecuador, the Associated Press reported.

BUSINESS NEWS

Shell, Porto do Açu to Build Plant for Green Hydrogen in Brazil

Oil major Shell and Brazil's Porto do Açu industrial and port complex have signed a memorandum of understanding (MOU) to work together to build a green hydrogen plant in the country, Reuters reported Thursday. The entities will invest in the construction of a 10-megawatt green hydrogen plant at Açu's facility in Brazil's Rio de Janeiro state, according to the terms of the MOU seen by Reuters. The massive industrial complex and port is owned by Prumo Logistica, which is controlled by U.S. private equity firm EIG Global Energy Partners, according to the wire service. The green hydrogen plant, which is to be completed by 2025, is to produce a zero-carbon fuel made by using water that is split into hydrogen and oxygen. The fuel has increasingly been promoted as a viable alternative fuel for industries that rely heavily on fossil fuels, Reuters reported. The plant will be built and expanded upon to add to its megawattage production capacity, and it will require an initial investment of between $20 million and $40 million, with the goal of producing 100 megawatts by 2029, Reuters reported. By creating a supply of green hydrogen

NEWS BRIEFS

U.S. House Democrats Propose Binding Vote on Puerto Rico Statehood

Democratic members of the U.S. House of Representatives on Thursday proposed draft legislation for a binding plebiscite on whether Puerto Rico should gain U.S. statehood or receive some measure of independence, the Associated Press reported. The measure, which is not yet under formal consideration in Congress, would require lawmakers to accept Puerto Rico as a state if voters in the territory approve it. The measure appears to have little chance of passing in the Senate, however, where it faces Republican opposition.

Britain Hopes to Conclude Talks This Year on Joining CPTPP

Britain hopes to conclude discussions this year on joining the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, the 11-nation trade bloc that includes Mexico, Peru, Japan and Australia, the Financial Times reported. Anne-Marie Trevelyan, Britain's international trade secretary, told the newspaper that the country had already finished the first part of the accession to the trade bloc and was working through other parts of the negotiations.

BBVA Argentina Reports Decline in Adjusted Net Income for First Quarter

BBVA Argentina on Thursday reported $4 billion in inflation-adjusted net income for the first quarter, a 27.1 percent decline from the $5.5 billion the bank reported in the fourth quarter of last year and a 12.3 percent decline from the $4.6 billion total from last year's first quarter. BBVA Argentina also posted an inflation-adjusted average return on assets of 1.4 percent and an inflation-adjusted average return on equity of 9 percent, the bank said in a statement.

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in Brazil, Shell and Açu have said they hope to generate demand for the fuel in a green energy market that is still in its infancy. "The idea is to test the market for green hydrogen in Brazil," said Mauro Andrade, executive director of business development at Prumo, Reuters reported. "We want to test off-takers outside of Brazil as well. Everyone talks about green hydrogen, but in the market today the number of off-takers is still limited." [Editor's Note: See related **Q&A** in the June 18, 2021 edition of the weekly Energy Advisor.]

Banorte, UNDP to Provide Training to Mexican Officials

Grupo Financiero Banorte announced Thursday that it will work with the United Nations Development Programme to provide training to officials in Mexican states and municipalities in order to construct budgets that include "results-based" goals for sustainable development. The program, which the United Nations designed, will involve tools for financial discipline and also offer ideas for productive public works projects, Banorte said. "I am convinced that together we can promote sustainable development in Mexico," Banorte Chairman Carlos Hank González said in a statement. "Today, we strongly recognize the importance of reaching this goal, and we want to help motivate and support others to achieve it as well," he added. The program will include training sessions for officials who oversee state and local public works and expenditures, as well as development of "a methodological guide" to support the United Nations' sustainable development goals, as well as assistance for state and local government officials who are involved in budgeting in order to help them develop technical capabilities to use "sustainable-centric tools," Banorte said. In a statement, Mexico's undersecretary of finance and public credit, Yorio González, called the partnership between Banorte and the U.N. Development Programme an "important step ... for consolidating the sustainable finance development agenda in our country."

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primary deficit as well as funding from the central bank. If Argentina manages to do that, it should help to usher in a disinflationary process. But meeting IMF targets will be difficult, given political differences within the governing coalition in Argentina. Meeting those targets means reducing government expenditures even as Argentina faces a presidential election year in 2023. Several members of the coalition, including the vice president, have publicly expressed opposition to the IMF agreement. Government officials that are close to the vice president also oppose the new program. This is particularly important because in some cases those government officials would be the ones in charge of implementing budget cuts."

Pablo F. G. Bréard, founder and owner of Latin Context in Toronto: "In the context of escalating hyperinflation, rising social tensions (orchestrated by powerful unions) and elevated 'systemic informality' in the labor market, the adjustment of the minimum wage decreed by the Argentine government is immaterial. Indeed, the rather symbolic move is clearly motivated by election-related goals, while the Fernández-Kirchner administration attempts to deliver a message of compliance with the International Monetary Fund's program. Argentina, once again, is in active campaign mode. The most relevant driver of economic policy decisions over the next 12 months is the presidential election scheduled for October and November 2023 (an early indication of voting preferences will be highlighted at the mandatory primary elections in the third quarter of next year). The Argentine economy has been immersed in a sustained hyperinflationary spiral over the past few years, with devastating consequences on households' purchasing power. According to the latest central bank survey, annual headline inflation is estimated at 65 percent for 2022 (and will most likely be higher). Ironically, the banking sector in Argentina is well positioned to withstand a sustained period of high inflation due to the relatively low level of systemic leverage. The Argentine economy suffers from 'systemic inflation' linked to the erratic (and unilateral) intervention of the state in price formation mechanisms and to ill-conceived legislation affecting labor markets, capital controls, foreign trade flows and subsidies programs. Material structural change to the monetary regime in place will not occur during this administration, exposing the country to disorderly currency adjustments over the next 18 months. Only comprehensive regime change will help stabilize inflationary expectations from 2024 onwards."

> **"The rather symbolic move is clearly motivated by election-related goals."**
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> **— Pablo F. G. Bréard**

Daniel Artana, chief economist at FIEL in Buenos Aires: "The minimum wage is about 35 percent of the average wage of formal private workers. It is nonbinding for most (if not all) economic activities. But this is another step toward full indexation of a high-inflation economy. After the pandemic contraction of 2020, GDP recovered at a fast pace during 2021 with the help of exceptional terms of trade. In spite of this, the popularity of the government is very low. The acceleration of inflation during the first four months of the year (86 percent annualized) is an evident explanation to this ambivalent result. The government is encouraging that unions and business agree on wage hikes that compensate inflation and it is also granting informal workers and low-income pensioners a one-off bonus. This race between prices and incomes amid low credibility of the government's economic

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program is dangerous. It is likely to raise inflation even more."

Pablo Heidrich, assistant professor in the global and international studies program at Carleton University: "The minimum wage increase was done to reflect both the accelerating inflation rate and to accompany high annual wage increases obtained by several leading unions, such as those for construction workers, retail employees and teachers. Monthly Inflation is up from an average of 4 percent last year to 6 percent this year. The minimum wage hike will help registered employees with less union leverage, and it will partially support general wage increases in the very large and growing informal sector. Late last year, the government set up a new czar for price controls (the undersecretary of internal trade) with a mandate to force retailers and domestic producers to curb price increases. That strategy has largely failed. That distortion piles up on other large, pre-existing ones around heavily subsidized energy and public transportation prices. The result is a situation where relative prices across the economy are absurdly altered, further strangling investment opportunities. Under the current IMF agreement, the central bank is expected to eventually achieve neutrality and has thus been raising interest rates. That cascades into further reductions of available credit and increases the servicing cost of a galloping domestic government debt. Given the lack of credible government policies, the central bank is not able to accumulate dollar reserves and keeps financing the government deficit with money printing at a slightly lower rate than last year. That is the main cause for inflation, not minimum wage increases. These minimum wage increases are way behind the sum of recent and current inflation. Besides, a salary of $400 per month is just notional, as most domestic prices already reflect the informal dollar peso exchange rate, rendering a minimum wage of barely $250, among the lowest in the region."

> **"The minimum wage hike will help registered employees with less union leverage..."**
>
> **— Pablo Heidrich**

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