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## President Kirchner Replaces Economy Minister

by LADB Staff

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Argentine President Nestor Kirchner replaced Economy Minister Roberto Lavagna with Felisa Miceli, head of the state-owned Banco Nacion on Nov. 28, 2005. Markets dropped on the news that Lavagna, who had held the post since 2002, would no longer be in charge of Argentina's fiscal policy. Analysts saw the appointment of Miceli as a further turn toward expanded social spending under the Kirchner administration and an increase in the leftward tendency of the president's government.

### *Electoral win for Kirchner precedes ministry shake-up*

Kirchner had recently fortified his power with an overwhelming victory for candidates allied with his faction of the Partido Justicialista-peronista (PJ) and began a series of power-consolidating actions shortly afterward (see NotiSur, 2005-11-04). The announcement of Miceli's appointment came days before Argentina and Brazil announced that they would be paying off their debts to the International Monetary Fund (IMF). The two nations made the decision so they could gain greater sovereignty over their internal fiscal policies and free themselves from the conditions the IMF imposes on debtor nations.

While his decision to replace Lavagna, arguably the most powerful minister in the government, drew the most attention, Kirchner quickly followed the move with changes in three other Cabinet spots. Foreign Relations Minister Rafael Bielsa was replaced by Jorge Taiana. Nilda Garre took over the Defense Ministry from Jose Pampuro, and Juan Carlos Nadalich took over the Ministry of Social Development from Alicia Kirchner, the president's sister. The replacements came after the ministers holding the Cabinet positions won seats in the national legislature.

Analysts and reporters characterized the Cabinet changes as a further turn to the left on Kirchner's part. Buenos Aires daily newspaper Clarin said the ministers would represent the "K Style," as some observers have dubbed Kirchner's populist, uncompromising style of governing. Kirchner's administration inherited Lavagna from transitional President Eduardo Duhalde (2001-2003). The fiscally tight minister, appointed in 2002, played a key role in Argentina's recovery since the economic crash the year before and was loved by foreign investors. Local stocks dropped by 4.48% when it was announced that he would be resigning, although some analysts attributed the drop in part to the abruptness of the announcement and investor unfamiliarity with Miceli. Lavagna said that irreconcilable differences between Kirchner and him led to his removal.

Press outlets also noted Lavagna's frequent conflicts regarding budget issues with the head of the Ministry of Federal Planning, Julio de Vido. Kirchner created the ministry when he first entered office and de Vido was a close ally. Lavagna's work included a successful trimming of Argentina's US\$120 billion foreign debt (see NotiSur, 2005-03-11).

In his outgoing statements, Lavagna said, "Four years ago it fell on us to assume with President Duhalde an extremely critical situation....Argentine society, with patience, with resignation, with work, understood and accepted many of the policies we proposed. To them goes the greatest merit." Lavagna said that the economy "is in a strong, solid situation and in the social area we have advanced enough in repairing the general damage."

First female Economy Minister Miceli is a 52-year-old economist and an expert on social policy. She is Argentina's first female head of the Ministry of Economy. Prior to her tenure at Banco Nacion, she was director of the Banco de la Provincia de Buenos Aires and a consultant to national and provincial governments on public investment. Clarin made sure to report that she prefers dressing somewhat informally in pants and jackets, prefers pastel colors, and keeps her hair loose and shoulder-length.

Kirchner, appearing on Nov. 29 with Miceli, said the country needs "growth with equality." He said that investments would fuel "growth with macroeconomic order and without social inequalities." One of the top concerns for Miceli's administration will be rising inflation. She projects that the inflation rate for 2006 will be between 8% and 11%, though the Kirchner team admits that it could go higher. Miceli expects the 2006 GDP growth rate to be 4% and anticipates that the rate for GDP growth in 2005 will end up being about 8.5%. Miceli said at a meeting with small and medium-sized businesses that the fiscal surplus will be "the anti-inflation anchor" that "will permit us to effect external payments."

In January, Miceli reported a 21% increase in tax revenues paid to the government. December revenues came to US\$11.3 billion, a 41% increase from the same month in 2004. With the figure from December, the federal government reported that it had collected a total of US\$119.25 billion in 2005. Officials called the numbers a very important reflection of continued economic expansion and said they surpassed expectations. Finance Secretary Carlos Mosse said the primary fiscal surplus for 2005 would be more than 20 billion pesos (about US\$6.6 billion).

### *Economists, investors respond negatively*

Barry Eichengreen, an economics professor at the University of California at Berkeley, lamented the removal of Lavagna and prognosticated bad times with Miceli. Lavagna was one of the few officials in Kirchner's Cabinet who pushed the government to rein in spending and urged the central bank to drain cash from the economy to curb a pickup in inflation, according to Eichengreen. "There is a populist president who wants to maintain expansionary policies," Eichengreen added. "Mr. Lavagna has been one of the few voices of reason in the face of this madness."

Argentina's annual inflation rate climbed to a 29-month high of 10.7% in October as companies struggled to meet consumer demand amid a third year of economic growth at a rate of about 9%. Government spending in the first 10 months of the year is up 43% from the same period two years earlier, according to Martin Apaz, an economist with Deloitte & Touche LLP in Buenos Aires.

The pickup in inflation may drive up costs for Argentine companies, making them less competitive in export markets and weakening the economic expansion, said Rafael Ber, an economist with

Argentine Research in Buenos Aires. The surge in prices may also increase poverty in a country where almost 50% of the population cannot meet their needs for food and other basic goods, Ber said. Kirchner has received agreements from retailers to hold down prices on items like foodstuffs through January.

The Argentine Chamber of Commerce spokesperson and many other investing corporations also responded negatively to Miceli's appointment.

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