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Argentine President Kirchner Orders Restaffing at Top Inflation Index Agency

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 Argentine President Nestor Kirchner removed a top official in charge of measuring inflation at the Instituto Nacional de Estadisticas y Censos (INDEC). Investors and political-opposition figures rallied against the decision, as did employees of the government agency. Economy Minister Felisa Miceli defended the decision, saying that it was necessary and that data reports for January were erroneous.

Kirchner accused of politicizing statistics agency
Inflation in Argentina is being fueled by four consecutive years of more than 8.5% annual growth and is a central problem for the Kirchner administration. Skyrocketing cost-of-living prices are the biggest weakness in the economic recovery Kirchner has managed since winning the presidency after Argentina's economic meltdown in 2001. The government has pushed through accords with the agricultural industry to control domestic food prices, leading to strikes by food providers, particularly in the beef industry (see NotiSur, 2005-04-15, 2006-01-06 and 2006-07-28).

Last year the government imposed price controls on hundreds of products to curb inflation and banned beef exports to force slaughterhouses to sell more meat locally. Farmers conducted a nine-day work stoppage in December to protest government efforts to place restrictions on the beef industry. Kirchner defended his decision to replace the officials in charge of inflation data at INDEC, saying he made the move to improve operations."

Analysts and economists that have criticized the data are being paid by other political interests, and we all know how they made out when they were in the government," Kirchner said Feb. 6 during a speech at the presidential palace in Buenos Aires. Kirchner's decision to remove Graciela Bevacqua, the head of the division that produces inflation reports, and replace her with Beatriz Paglieri, an aide to Economy Minister Miceli, drew criticism from economists such as Fausto Spotorno at Orlando Ferreres y Asoc., a Buenos Aires-based economic-research company. Appointing politically connected officials to jobs held by technical staff raises questions about the independence of the national statistics institute and the credibility of its data, he said.

Bevacqua was removed from her post after she declined to modify the methodology used to measure the consumer price index, Clarin, an Argentine newspaper, reported, without saying how it got the information. "If we have to make changes, we will do it because they are to improve operations," said Kirchner. "I didn't get into government to just give in or leave ideas at the front door."

Government union protests
On Feb. 5, the institute released January's inflation data three hours late, without an explanation for the delay. The government said consumer prices rose 1.1% in January, compared with the
1.7% increase calculated by Buenos Aires-based M&S Consultores, an economic-research firm. INDEC workers walked off the job Feb. 22 to protest the decision to remove Bevacqua. Workers gathered outside the agency, three blocks from the presidential palace in Buenos Aires, and blocked access. The protesting agency workers chanted "1.9!" "We're seeking to defend the credibility of our indexes and defend our jobs," said Daniel Fazio, the representative of the Asociacion de Trabajadores del Estado (ATE), the largest government-employee union. "The government's intervention, by naming a person from outside the agency, has damaged the credibility of our work."

Argentina's next inflation report is slated for release March 5, when workers will again protest, Fazio said. "We need a public discussion about the new methodology that the government used in the last report in a bid to try to mend the damage," Claudio Lozano, a lawmaker from the opposition Emancipacion y Justicia, said. Inflation crisis looms over election year Economist Jose Luis Espert, who heads Espert & Asoc. economic-research organization, said the government may have trimmed about one percentage point from the consumer index by underestimating the impact of price rises in tourism and private medicine.

"Investors holding an inflation-linked bond won't be able to trust the inflation index anymore," Espert said. "The government has cut in half the January inflation." Annual inflation was 9.7%, the second-highest rate among the 10 biggest countries in Latin America. Only Venezuela's 18.4% rate is higher. "The inflation index is not only losing credibility with financial markets but also with the average citizen, and that's a real problem for President Kirchner in an election year," said Carola Sandy, an economist at Credit Suisse in New York.

Miceli said that January's trade data would be reviewed because of "errors" and that protests are small and baseless. "Why didn't any of the people who make a habit of criticizing the government notice this error?" Miceli said at a news conference at the Economy Ministry in Buenos Aires. The values of certain agricultural exports were understated in the government report issued Feb. 21, Miceli said.

Argentina's trade surplus narrowed to US$418 million in January, the lowest level in almost six years, the agency said. Unionized workers, the government, and companies use the index as a tool to negotiate wage increases for the year. "I don't know how the government can say inflation was 1.1% if we all see that it's much higher," said Julio Gerez, 55, a street vendor at the entrance of the statistics agency's building. "I've had to cut my beef and milk consumption because I can no longer afford it." Beef is a central staple in Argentine cuisine, dominating most meals.

Gerez said he owned a restaurant until 2001, when the country's economy shrank almost 11% and the government defaulted on US$95 billion in debt. "A lower index affects the wage increase that workers will receive," said Luis Opromolla, in charge of negotiations with the government at the Buenos Aires city branch of the ATE. "This will benefit business owners." "It's obvious there's been some intervention," said Bertrand Delgado, an economist at IDEAglobal in New York. "People are going to be looking very closely at future inflation releases and any deviation from market expectations will create volatility." "We know there's been some manipulation," said Rafael Ber, an economist in Buenos Aires at Argentine Research. "The question now is how big it's been."
The government also planned to change the methodology to measure the rise in consumer prices to reduce the reported increase in the cost of education as students prepare to return to class in March, newspaper Ambito Financiero reported Feb. 26, without saying how it obtained the information. "These new versions on more meddling with the inflation index are spooking investors," said Noelia Lucini, an economist at Capital Market Argentina Sociedad de Bolsa SA. "It's more of what we saw earlier this month."

Economy Ministry spokesperson Silvio Robles said, "The methodology by which the government measures inflation will not be altered."

Uneven growth does not help all Argentines Social activist Sergio Orona of the Asociacion Civil Poder Popular told the Inter Press Service that revival of the economy is reflected by the increase in consumption, although everyone has not experienced the benefits equally and public services like mass transit have not all kept up with the growing demand.

The activist said poor families have been able to leave the worst of the crisis behind, although that is not true for everyone. He noted that in La Matanza a working class neighborhood in Buenos Aires that is home to over 2 million people people over 50, especially female heads of households, only manage to find temporary work these days.

As the middle class recovers, work has become more widely available in areas like construction, household repairs, domestic service, child care, or bus driving. However, many of these jobs are temporary and informal, and it is still a challenge to find steady, stable employment.

The latest Economic Commission for Latin America and the Caribbean (ECLAC) social panorama report says the region, which has benefited from improved global economic performance, enjoyed its fourth straight year of economic growth of more than 4% in 2006, a level that will be maintained this year. In South America, Argentina's economic growth last year was more than twice that of Bolivia, Brazil, Chile, and Paraguay.

The unemployment rate dropped from 24% in 2002 to 10%, counting among the "employed" the unemployed heads of households who receive a small monthly government stipend. If they were not included, the unemployment rate would be nearly 2% higher. The creation of jobs is largely driven by construction, the car industry, agriculture, banking, insurance, and tourism. The Labor Ministry reports that nearly 385,000 new jobs were created over the last year, mainly in the formal sector of the economy.

Although the informal sector accounts for almost 40% of all employment, formal-sector employment grew nearly 12% in the last 12 months, while employment in the informal economy actually shrank 2.2% a shift that benefited the most vulnerable socioeconomic strata.

After four years of recession culminated in the December 2001 economic meltdown, the poverty rate skyrocketed to 57.5% of the population of nearly 37 million. But it has fallen to 33% and continues to go down. That is still a high percentage, said opposition Deputy Claudio Lozano, an economist and
adviser to the left-leaning Central de Trabajadores Argentinos (CTE), one of the country's two big union federations.

Lozano said 33% is still higher than the poverty rate seen in the 1990s, when poverty began to grow. Lozano also expressed concern over the country's skewed income distribution, even though official figures show an improvement: in 2003, the income of the wealthiest 10% of the population was 56 times greater than that of the poorest 10%, and now it is 35 times greater.

But "the improvement in income was noted in the middle and upper-income sectors, not among the poor," said Lozano. "Although economic activity is nearly 20% higher than it was in 1998, when the recession began, an economic model marked by greater poverty and unemployment and a wider income gap is being consolidated." The economist said that these problems are a result of the economic model that has been applied and that there is little will to correct the shortcomings.

"This year we will see continued progress toward sustained economic growth, a reduction in poverty and unemployment, and a narrowing of the income gap, but these changes will not be in proportion to the strong economic recovery," he said. [Sources: El Comercio (Ecuador), 11/21/06; El Universal (Venezuela), 12/15/06; Inter Press Service, 01/09/07; La Nacion (Argentina), 02/06/07; El Nuevo Herald (Miami), 12/12/06, 01/11/07, 02/13/07; www.bbcmundo.com, 02/15/07; www.telesurtv.net, 02/14/07, 02/16/07, 02/18/07; Clarin (Argentina), 12/12/06, 01/23/07, 01/30/07, 01/31/07, 02/05-07/07, 02/12-16/07, 02/20/07; Bloomberg, 11/21/06, 11/22/06, 12/05/06, 12/11/06, 12/13-15/06, 01/23/07, 01/24/07, 02/06/07, 02/07/07, 02/21/07, 02/23/07, 02/26/07]

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