



UNDP LAC C19 PDS N°. 6

Social and Economic Impact of COVID-19 and Policy Options in Argentina

By María Laura Alzúa and Paula Gosis¹
Center for Distributional, Labor and Social Studies, Universidad Nacional de La Plata and Partnership for Economic Policy (PEP)

April | 2020

Abstract

This document describes the current situation regarding the COVID-19 crisis in Argentina. It describes the current state of the economy, and the possible channels of transmission that will affect GDP, labor markets and poverty. It summarizes the policy responses carried out by the Argentine government so far and provides some suggestions to minimize the negative impact on employment and poverty. Argentina has entered an early and severe lockdown which has lessened the health sector burden and saved lives. This has seriously deepened the economic crisis Argentina has been suffering since 2018. Compared to other countries in the region, the government has less room to maneuver given its lack of access to international financial markets and compromised fiscal situation.

¹ The authors would like to thank Andy Neumeyer, Federico Sturzenegger, Santiago Levy and Mariano Tommasi for their useful comments to earlier version of this document.



POLICY DOCUMENTS SERIES

UNDP LAC C19 PDS N°. 1

A Conceptual Framework for Analyzing the Economic Impact of COVID-19 and its Policy Implications

By Constantino Hevia and Andy Neumeyer

UNDP LAC C19 PDS N°. 2

Suggestions for the emergency

By Santiago Levy

UNDP LAC C19 PDS N°. 3

The economic impact of COVID-19 on Venezuela: the urgency of external financing

By Daniel Barráez and Ana María Chirinos-Leañez

UNDP LAC C19 PDS N°. 4

Social and economic impact of the COVID-19 and policy options in Honduras

By Andrés Ham

UNDP LAC C19 PDS N°. 5

Covid-19 and external shock: Economic impacts and policy options in Peru

By Miguel Jaramillo and Hugo Ñopo

UNDP LAC C19 PDS N°. 6

Social and Economic Impact of COVID-19 and Policy Options in Argentina

By María Laura Alzúa and Paula Gosis

Disclaimer:

Social and Economic Impact of COVID-19 and Policy Options in Argentina

April 2020

UNDP partners with people at all levels of society to help build nations that can withstand crisis, and drive and sustain the kind of growth that improves the quality of life for everyone. On the ground in nearly 170 countries and territories, we offer a global perspective and local insight to help empower lives and build resilient nations.

Copyright © UNDP 2020

All rights reserved Published in the United States of America

United Nations Development Programme | One United Nations Plaza, New York, NY 10017, USA

The views, designations, and recommendations that are presented in this report do not necessarily reflect the official position of UNDP.



Introduction to the series:

Evidence, Experience, and Pertinence in Search for Effective Policy Alternatives

The Covid-19 pandemic is one of the most serious challenges the world has faced in recent times. The total cost in terms of human lives is yet to unfold. Alongside the cost of lives and deep health crisis, the world is witnessing an economic downfold that will severely impact the wellbeing of large parts of the population in the years to come. Some of the measures that are currently being used to counteract the pandemic may impact our future lives in non-trivial ways. Understanding the association between different elements of the problem to broaden the policy space, with full awareness of the economic and social effects that they may bring, is the purpose of this series.

Thus far, the impossibility of targeted isolation of infected individuals and groups has led to policies of social distancing that impose a disproportionately high economic and social cost around the world. The combination of policies such as social distancing, lockdowns, and quarantines, imply a slowdown or even a complete stop in production and consumption activities for an uncertain period of time, crashing markets and potentially leading to the closure of businesses, sending millions of workers home. Labor, a key factor of production, has been quarantined in most sectors in the economy, borders have been closed and global value chains have been disrupted. Most estimates show a contraction of the level of output globally. For the Latin America and Caribbean region, the consensus forecasts are at -3 to -4%, and it is not until 2022 that the region is expected to go back to its pre-crisis output levels in scenarios that foresee a U-shaped crisis pattern. According to ECLAC, more than 30 million people could fall into poverty in the absence of active policies to protect or substitute income flows to vulnerable groups.

We face a crisis that requires unconventional responses. We are concerned about the level-effect: the impact of the crisis on the size of the economies and their capacity to recover growth after the shock. But we are equally concerned about the distributional impact of the shock. The crisis interacts with pre-existing heterogeneity in asset holdings, income-generation capacity, labor conditions, access to public services, and many other aspects

that make some individuals and households particularly vulnerable to an economic freeze of this kind. People in the informal markets, small and micro entrepreneurs, women in precarious employment conditions, historically excluded groups, such as indigenous and afro-descendants, must be at the center of the policy response.

UNDP, as the development agency of the United Nations, has a long tradition of accompanying policy-making in its design, implementation, monitoring and evaluation. It has a mandate to respond to changing circumstances, deploying its assets to support our member states in their pursuit of integrated solutions to complex problems. This series aims at drawing from UNDPs own experience and knowledge globally and from the expertise and capacity of our partner think tanks and academic institutions in Latin America and the Caribbean. It is an attempt to promote a collective reflection on the response to the Covid-19 health crisis and its economic and social effects on our societies. Timeliness is a must. Solutions that rely on evidence, experience, and reasoned policy intuition –coming from our rich history of policy engagement– are essential to guide this effort. This series also contributes to the integrated approach established by the UN reform and aspires to become an important input into the coherent response of the United Nations development system at the global, regional, and national levels.

Ben Bernanke, former Governor of the US Federal Reserve, reminds us in his book *The Courage to Act* that during crises, people are distinguished by those who act and those who fear to act. We hope this policy documents series will contribute to the public debate by providing timely and technically solid proposals to support the many who are taking decisive actions to protect the most vulnerable in our region.

Luis F. Lopez-Calva

*United Nations Development Programme
Regional Director, Latin America and the Caribbean
New York, March 2020*



I. Introduction:

The economic crisis driven by the COVID-19 pandemic found Argentina in an already fragile economic and social situation. When the first case of COVID-19 in Argentina was confirmed on March 3, 2020, the Fernández administration was beginning its fourth month in office and was in the middle of a sovereign debt renegotiation. The economy had not rebounded after two years of recession, inflation was above 50% and poverty affected 35.5% of the population.

Social distancing measures, aiming to flatten the COVID-19 outbreak curve, escalated throughout March, until the government finally announced a strict mandatory shutdown on March 19. Initially it was to last until March 31. However, it was successively extended until May 10, with minor relaxations at the industry level as well as in regions with low population density or with a low number of cases. By April 25, the number of confirmed COVID-19 cases had climbed to 3,780, with 187 deaths. Confirmed cases in Buenos Aires province and city reached 2,246, 59.4% of the total number of confirmed cases nationwide.

With a strict shutdown the government seeks to flatten the COVID-19 curve (the peak is expected for June) and thus gain time to allow hospitals to have the equipment and the human resources needed to cope with the pandemic. By the end of March, there were 8,500 intensive care beds, including private and public hospitals: the government aimed to add 2,000 more before the pandemic's peak. There were also 8,900 ventilators, and the aim was to have 10,000 by the end of April. The government also seeks to get more test kits² to be able to identify the asymptomatic population before driving an important relaxation of isolation measures. However, the ongoing shutdown puts most small businesses in non-essential sectors at risk, while the high share of informal workers means that significant financial aid will be needed to prevent a deep social crisis. The dilemma of "economy vs health" is even more challenging for Argentina, given its important fiscal imbalances and high public debt burden, and could turn into a more disruptive crisis.

The report is organized as follows: Section 2 analyses the channels of transmission of the COVID-19 global crisis in Argentina, Section 3 analyses its economic and social impact, Section 4 analyses the potential for social unrest, Section 5 analyses policy interventions and options, and Section 6 concludes.

2. Channels of transmission

2.1. Trade

Argentina will be hit hard by the expected slump in foreign trade as a result of the COVID-19 outbreak. Most of its exports are agricultural commodities, so it has no ability to diversify exports in the short term. Exports of goods & services represented 22.7% of real GDP in 2019, a share that is lower than in other Latin American countries, so the impact of the decrease in foreign trade will be comparatively lower at a regional level. However, exports are an important source of tax revenues (through export taxes) and foreign exchange (though the expected imports' slump allows to predict a foreign trade surplus for 2020).

² By April 25 49,905 tests (equivalent to 1,099.8 samples per million) had been carried out. In April the government received 170,000 serological kits and 215,000 PCR tests, with which it seeks to strengthen the strategy to identify and isolate patients, and so reduce the virus' spread. On their part, local researchers at Conicet laboratory are developing a fast, portable test based on CRISPR technology. However, given the world demand for kits, it is highly unlikely that the government can secure the number of necessary kits to increase tests massively.



63.8% of Argentina's exports are concentrated in agricultural commodities and manufactured products of agricultural origin, leaving the country vulnerable to a drop in their prices, particularly corn and soya. Agricultural exports are concentrated in the second quarter of the year (when soya and corn are harvested), which is expected to be the worst quarter due to the pandemic peak. Besides, maize and soya export volumes are expected to decrease in 2020, as dry weather undermined yields and reduced the expected agricultural harvest.

Export earnings totalled US\$65.1bn in 2019. Primary products accounted for 27% of the total, with cereals (mainly wheat and corn) and oilseeds (mainly soya) representing 77% of them. Manufactured products of agricultural origin accounted for 36.8% of total exports, with meat and oilseed derivatives representing 75.8% of these products.

Nearly two-thirds of exports are sold to countries that are hit hard by the COVID-19 outbreak, including Brazil (16% of the total), the European Union (13.5%), Asian countries excluding China (12%), China (10.8%), the US (6.2%) and Chile (4.7%). China, Asian countries and the EU accounted for nearly a half of agroindustry exports (including primary products and manufactured products of agricultural origin). Brazil was the outlet of 35% of manufactured product' exports.

Foreign trade data for February and March 2020 showed a contraction of exports to Argentina's main trading partners (China, the EU, NAFTA countries and Brazil), showing the effect of the economic downturn in foreign trade flows. Preliminary estimates prepared by local consulting firms projected a decrease of US\$3.4bn in exports for 2020, however given the rapid COVID-19 spread and its effect on Argentina's main trading partners, the decrease will be surely higher, as it will affect both agricultural and manufacturing exports.

Imports totalled US\$49.1bn in 2019. Intermediate goods' imports accounted for 34.9% of the total. Though MERCOSUR countries are the main source of intermediate goods (with nearly a third of them), about half of intermediate goods' imports come from three regions severely affected by the pandemic: NAFTA countries (16.8% of the total), the EU (16.8%) and China (15.9%). China is an important source of industrial inputs for some industries such as electronics and household appliances, textiles and footwear, chemicals and the machinery industry.

Imports of capital goods and its parts & accessories accounted for 37.9% of total imports. Nearly two-thirds of the total come from China (27.7%), the EU (22.4%) and NAFTA (13.8%). However, China and Asian countries have a major role as source of origin of parts & accessories, representing 37.3% of the total, so capital goods' maintenance could face trouble. Brazil accounts for 75-85% of the car industry's imports, so the lockdown in that country will undermine the performance of Argentina's car industry.

2.2. Travel and tourism

The travel and tourism industry has been hit hard by the COVID-19 outbreak. On March 15, the government banned the arrival of non-resident foreigners. On March 17, it announced the suspension of domestic flights and long-distance trains and buses, as well as hotels' shutdown. These measures were lately extended until May 10. On April 26, the government announced that airlines were not able to issue new tickets until September 1, however this measure will be reviewed every two weeks according to the outbreak's evolution.

The travel and tourism industry is an important source of foreign exchange and a significant source of employment and incomes in some regions (such as Patagonia, the Northwest and some North-east provinces). In 2019, 7.4 m foreign tourists visited Argentina, a rise of 6.6% over 2018. In 2019, travel services' income was US\$5.2bn according to INDEC's balance-of-payments figures. Domestic tourism is also expected to be hit hard by social distancing measures. Data from the Tourism Ministry for December 2019 showed that there were 1.7 m passengers hosted in



hotels during that month, of which 72% were domestic tourists, which shows the relevance of domestic tourism for this industry. By the end of 2018, there were a total of 15,629 establishments (including hotels, hotels, lodging houses, etc).

The hotels and restaurant industry accounted for 1.6% of GDP in 2018. There is no disaggregated data on passenger transport to know the weight of tourism-related transport on GDP. Data on domestic air transport showed that 15.9m passengers travelled by plane in 2019.

According to data for 2014 (the latest disaggregated data), the tourism industry (including lodging, restaurants, transport and other tourist services) had 1.1 m employees, around 5.4% of total employment.

2.3. Financial markets

In Argentina the worsening of financial indicators had different drivers: increasing global volatility due to the pandemic, investors' fears about the effect of the outbreak in the domestic economy, and doubts about the results of sovereign debt renegotiations.

The impact of capital outflows reflected in the boost shown by JP Morgan's EMBI-AR index, which climbed from 2,035 b.p. on February 19 to 4,269 b.p. on March 24, to remain above 3,600 b.p. since then. Given the existence of foreign exchange controls (there is a US\$200 cap on exchange purchases), the hit in investors' confidence was reflected in the informal market, in which the exchange rate climbed from Ps:US\$83.5 on April 3 to Ps:US\$120 on April 23, driven by fears of a new debt default after the aggressive debt proposal presented by the government (which included a three-year grace period, a 62% reduction in interest payment and a 5.4% cut in capital) was rejected by creditors. Hence for Argentina, the result of debt renegotiation will surely have a greater impact on financial inflows than global turmoil.

Social distancing measures

Social distancing measures escalated after mid-March. On March 12th president Alberto Fernández announced decree 260/2020 declaring a public health emergency. The decree enabled the Health ministry to adopt the measures needed to fight the outbreak, opening the door to the reallocation of funds or the adoption of measures to prevent shortages. The decree included the suspension of flights from Europe, the US, China, Japan, South Korea and Iran for 30 days, though this extension could be longer if needed. It also established a 14-day self-quarantine for those who came from the affected countries (even tourists), as well as those who were infected (or were suspected to be infected) with the virus and these people's inner circles. Those who did not comply with this self-quarantine could be denounced and criminal law (according to articles 205 and 239 of the Penal Code on infectious disease propagation) would be enacted. The decree also established that the government could implement price caps on key inputs such as hand gels and face masks and could take measures to prevent their shortage. The government also suspended large sporting events and cultural activities.

On March 15, the president announced additional measures, including the suspension of school classes, the closure of the country's borders, a ban on mass activities, the closure of cinemas and theatres, and paid sick leave for people at risk (such as those older than 60 years old, and pregnant women).

On March 19, the government announced a mandatory quarantine until March 31, though it was afterwards extended until May 10. The quarantine included mandatory self-isolation for all Argentines, except for those who



work in essential services such as health, supermarkets and grocery stores, pharmacies, the food industry, telecommunications, public transport, utilities, broadcasting services, etc. Stores and manufacturing plants of non-essential activities will remain closed. People will be allowed to make their daily purchases, but the violation of the announced restrictions will be considered a crime. The quarantine is nationwide.

Though the quarantine's strictness was mostly kept, it was partially relaxed through the addition of new essential activities. The government announced a new phase, the so-called "managed quarantine", where the lockdown's relaxation will be geographically decided and controlled by local authorities (provincial governors and mayors). Since April 27, regions and towns with a low number of COVID-19 cases or where the outbreak seems to be controlled will be allowed to partially ease the shutdown.

A local consulting firm, Eco-Go, estimated that each day of strict quarantine has a cost of US\$500m, though some others estimated it to be US\$1.0bn. Considering that a strict shutdown was extended for around 5 weeks, and computing a daily US\$500m loss (which could be rather conservative), the cost rises to US\$12.5bn (equivalent to 2.8% of GDP), if only working days are included. The cost will obviously rise as the shutdown is extended.

The economic downturn will boost unemployment and reduce incomes of self-employed people. Uncertainty about the extension of restrictive measures and consumers' fears about its impact on employment and on households' incomes will curb private consumption. Households will prioritize the purchase of consumer staples, rather than non-essential products.

Fears of economic depression and the lack of financing will curb investments, except in those industries that are key to face the outbreak (the food industry, cleaning products, pharmaceuticals, medical equipment).

2.4. The oil crisis

The mining, quarrying, and gas and oil extraction industry accounts for just 3% of GDP. However, the oil industry is important in some oil-producing provinces such as Neuquén and Chubut and has important spill-over effects to some services industries such as the travel industry and IT services.

Energy exports accounted for 6.6% of total exports in 2019, so the oil price slump will not have a significant impact on export earnings. Given that between 2001 and 2017 oil production decreased due to a less favourable regulatory framework, the energy industry has posted a trade deficit since 2011. However, this deficit has narrowed since 2013 to reach just US\$175m in 2019. Given that oil prices are a clear inflation driver, the oil price slump will have a positive effect on the consumer price index.

The most relevant effect of the oil price shock will be the decrease in investments (mainly foreign direct investments), especially in unconventional oil fields such as Vaca Muerta, in Neuquén province, where a price of US\$50 per barrel is needed to make it profitable. Oil companies have claimed for a price subsidy. By now the government has announced the implementation of non-automatic licences to restrict oil imports, however there could be new subsidies in the medium term, which will have an impact on the fiscal deficit. In 2019 energy subsidies accounted for 1.4% of GDP (down from 3% in 2015).



3. Economic and social impact

3.1. Economic growth

“There is a perfect storm brewing in the global economy. Most recessions are caused by a demand shock (think 9/11), a supply shock (think of the first oil price increase) or a financial shock (think Lehman Brothers and the Great Recession). COVID-19 promises to deliver all of the above in a single package”

(Triggs, A. and H. Karas, The triple economic shock of COVID-19 and priorities for an emergency G-20 leaders meeting, Brookings, March 2020).

There is a triple economic shock: a supply shock (driven by the shutdown of manufacturing plants, retail stores, etc), a demand shock (due to social isolation measures, the rise in unemployment and more cautious consumers) and a financial shock (as consumption declines, liquidity troubles appear, putting companies -especially small and medium companies- at risk). The effect on GDP growth will depend on how long the shutdown will be in place, and that will depend on the epidemic's growth path. However, the effect will be significant, as the crisis is global. There is also a broad consensus among health agencies and experts that the shutdown must be lifted gradually, and that social distancing measures will be in place for a long time, presumably until there is an effective vaccine (which is estimated not to be before the next twelve months), or the population achieves herd immunity (which would take longer than twelve months).

Argentina was already in a vulnerable economic and social situation at the start of the COVID-19 outbreak. In 2018-2019 real GDP accumulated a decrease of 4.6%. Some private estimates show that the economic downturn continued in the first quarter of 2020 (despite the economic package announced in December 2019 that sought to fuel the consumption of the poorest households), while year-on-year inflation remained around 50%. In the fourth quarter of 2019 unemployment was 8.9%, and underemployment was 13.1%. The poverty headcount was 35.5% in the second half of 2019, while in 2019 wages rose by 40.9%, well below inflation. The economic outlook was already dim and depended to a great extent on the results of sovereign debt renegotiation.

Before the pandemic, real GDP was expected to decrease by 1.2% in 2020 and inflation was expected to climb to 40%, according to Central Bank's Market Expectations Survey. However, the contraction will be deeper, due to the global and domestic effects of the COVID-19 outbreak. The shutdown will undermine aggregate supply, while demand will be affected by higher unemployment, lower incomes and growing uncertainty, which will drive a decrease in private consumption. Investment will also be hit hard by financial volatility and an uncertain economic outlook, so the economy will be stuck in a vicious circle of decreasing consumption and lower employment and incomes. According to IMF estimates, real GDP will decrease by 5.7% in 2020, while for the World Bank it will narrow by 5.2%. The Economist Intelligence Unit predicts a steeper downturn (6.7%), while ECLAC estimates a 6.5% decrease.

We can think of two likely scenarios for the Argentine economy in 2020, driven by different assumptions³.

Scenario 1: In this scenario we assume that the early shutdown helps to flatten the COVID-19 curve, so the government can gradually lift restrictions after May, reducing the strictest shutdown to 7 weeks. The scenario also assumes that the government will implement widespread social and economic relief measures during the shutdown, and once it is lifted it will implement stimulus measures to encourage an economic rebound. It is also assumed that the government succeeded in restructuring sovereign debt in the first half of the year.

³ The two different scenarios result from the fact that the country is still in initial stages of the COVID-19 crisis in a very dynamic setting.



In this scenario we expect that real GDP contracts by 10% (similar to the decrease in 2002), with a higher decrease in the first half, and milder contractions in the third and fourth quarter⁴. Inflation will be about 50%-60%. Supply constraints and monetary expansion will boost inflationary pressures, especially in essential goods. By contrast, the expected decrease in the consumption of non-essential goods will discourage price rises in these industries. Given troubles in the payment system during the shutdown, the rise in the precautionary demand for cash will prevent an acceleration of inflation while a strict quarantine is in place. The fact that social distancing measures will only be lifted gradually (with no economic rebound expected until 2021) will help to keep inflation under control, despite the rapid rise of the monetary base in the first half of the year. A debt restructuring agreement should help the government to issue new debt at least in the domestic market, helping to reduce the monetary financing of the fiscal deficit. In this scenario, the expected trade surplus (driven by a steep decrease of imports) should help to contain pressures in the foreign exchange market.

Scenario 2: In this scenario we have two important assumptions: the government decides to keep a strict quarantine for a longer period, and it is unable to reach a deal with debt creditors. In this scenario both economic and social indicators will worsen. There will be growing social tensions, which would in turn demand higher government funds to prevent riots. In this scenario real GDP will contract by 10-15%, while unemployment will climb well above 20%. Supply constraints will boost prices in basic staples, while growing economic uncertainty would boost the demand for dollars in the exchange market, putting pressure on the exchange rate, raising the possibility of an inflationary spiral and even a hyperinflation.

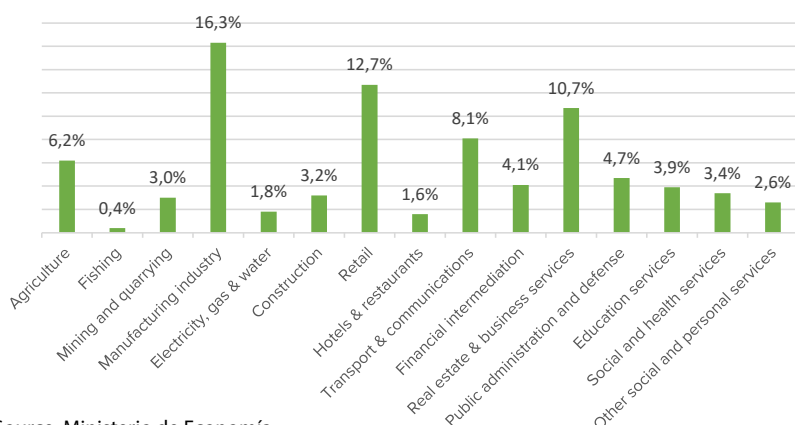
3.2. Industry's performance

Services-producing sectors, which accounted for 52.4% of real GDP in 2018, will suffer a severe slump. Some of the services sectors that will be worst hit by the pandemic (retail, hotels & restaurants, real estate, business services, and other social and personal services – which include cultural and sports activities) accounted for 27.6% of GDP. Transport (especially long-distance public transport) will also be hit hard (transport accounted for around a half of transport & communications). Among goods-producing services, construction will also be hit hard, at least until the crisis is over, and the government is able to boost infrastructure works in an attempt to drive an economic rebound. The outlook for the manufacturing industry (which is the main single economic sector and accounted for 16.3% of GDP) is mixed: those sectors considered essential (such as food and beverages, oil refining, chemicals, medical equipment), which represented around 45% of manufacturing output, will have a better performance than the rest.

⁴ This estimate includes, for the first quarter, the 5.4% decrease in economic activity computed by a local consulting firm (Orlando Ferreres). In the second quarter, which is expected to be the worst in terms of the outbreak and the lockdown, the contraction was estimated considering the decrease of electricity demand for each sector during the shutdown (and weighted according to their individual weight in GDP). Agriculture output is expected to decrease, in line with the lower harvest. In the third and fourth quarter the contraction is expected to be a lower (and decreasing) percentage of that of the second quarter, given that the quarantine will be lifted only gradually.



■ Figure 1. Economic sectors Share of real GDP 2018



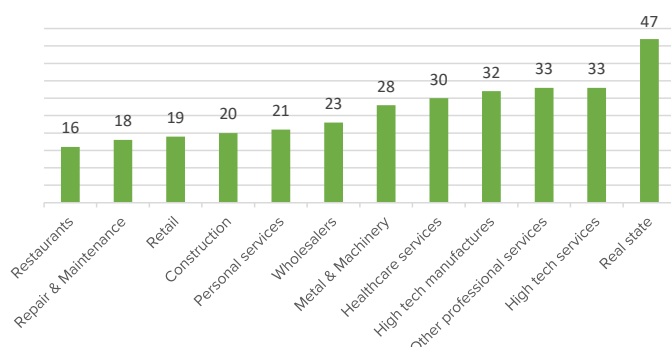
Source: Ministerio de Economía

Some high-frequency figures for the first four weeks of the Argentine shutdown showed different effects across sectors. According to data from CAMMESA (the company that manages the electricity wholesale market), the average daily electricity demand from big users fell by 36.5% compared with the three weeks previous to the shutdown. The food and basic staples industry posted a decrease of just 10.4%, while in the retail and services sectors the contraction climbed to 49.4%. In public services and transport, the decrease in electricity demand was 16.2%. The manufacturing industry showed the biggest slump, with an average decrease of 48.7%, though there are important differences across subsectors: construction (-81.9%), textiles (-80.1%), basic metals and metal-mechanics (76.3%), and the car industry (-74.8%) showed the biggest slumps, while wood and paper (-29%), chemicals, plastics, etc. (-21.9%), and oil refinery (-21.9%) showed the lowest decreases. Electricity demand from mining activity decreased by 28.5%, while that from oil industry by just 2.6%.

3.2.1. Cash and small business

According to a report released by JP Morgan, Chase & Co in 2016 based on 597,000 small businesses in the USA⁵, half of small businesses hold a cash buffer large enough to support 27 days of their typical outflows. Some sectors that are hit harder by the shutdown, such as restaurants, repair and maintenance, retail, construction and personal services are among those with the lowest cash buffer (with less than three weeks of cash).

■ Figure 2. Cash buffer days by sector



Source: JP Morgan, Chase & Co.

⁵ JP Morgan, Chase & Co Institute, "Cash is King: Flows, Balances and Buffer Days: Evidence from 600,000 small businesses", September 2016.



However, this survey was conducted in a country where informality is lower than in Argentina, small businesses have easier access to bank lending and tax pressure is also lower, so the outlook is much worse for Argentine small and medium companies, where the cash buffer seems to be of just two weeks. They are facing trouble to pay wages and could even go bankrupt.

Small and medium businesses in non-essential sectors are facing hard times, with shutdowns of stores and plants, so there are increasing liquidity troubles. The government announced some relief measures, such as programs to subsidize part of workers' salaries, and bank credit lines with lower interest rates to help companies to face liquidity troubles. However, many small and medium companies face difficulties in complying with the eligibility requirements for this financial aid, so there is a great risk of a massive bankruptcy if the shutdown extends longer.

3.3. Social impact

Most workers and employers are expected to lose earnings as a result of the pandemic. Those working in non-essential activities will suffer greater losses. However, those working in essential activities will also feel the impact of a decreasing demand, as those who lose their jobs are likely to reduce consumption spending, while those who still have earnings will also be more cautious.

Among those who will suffer the hardest hit, we can identify the following groups (which are not mutually exclusive):

- People under poverty and extreme poverty lines
- Unemployed people
- Informal workers
- Low-income self-employees ("monotributistas")
- Workers of non-essential activities
- Workers in small companies
- Owners of small companies, especially in non-essential activities

In this sub-section we present an overview of the current social scenario, through an analysis of Argentina's main social indicators: unemployment, informality and poverty. The detailed overview is expected to provide a useful input for policy analysis and decision-making.

3.3.1. Unemployment

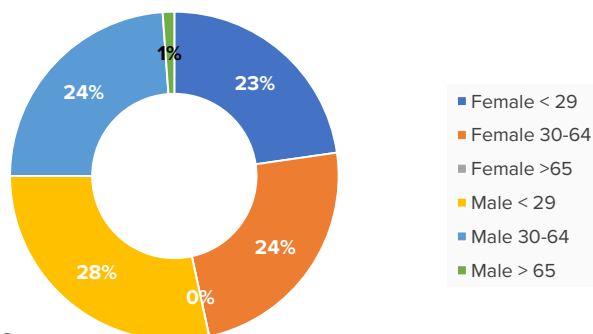
In the fourth quarter of 2019, the unemployment rate was 8.9%, while the under-employment rate (including those who would like to work more hours than they do) was 13.1%, which means that 22% of workers had employment trouble. The lockdown is expected to boost that figure.

The analysis of unemployment data shows important differences concerning gender, age, educational attainment and workers' skills, while it also shows that there is a non-negligible share of unemployed people that have been in that condition for a long time (or they have never worked at all).

Unemployment is higher among men (though this could be hiding the fact that many women decide to self-exclude from the job search due to motherhood, etc), and among those below 29 years old.



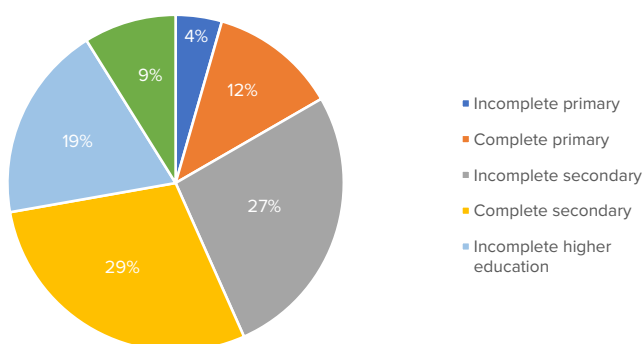
■ **Figure 3.** Composition of unemployment by gender and age IV qtr 2019



Source: INDEC.

Unemployment is higher among those with secondary education (both complete and incomplete): they account for 56% of the total. There is an important share of those with incomplete tertiary education.

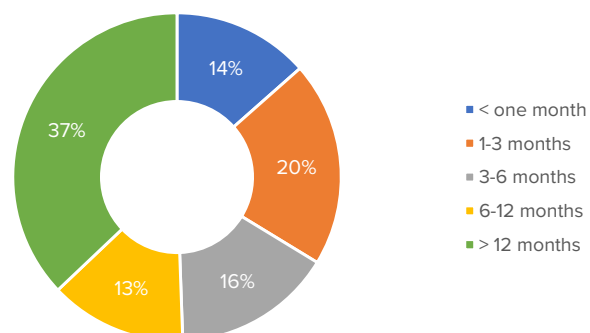
■ **Figure 4.** Composition of unemployment by educational attainment IV qtr 2019



Source: INDEC.

Around a half of workers have been unemployed for more than six months, and 37% of them have been unemployed for more than a year.

■ **Figure 5.** Unemployment by job search time IV qtr 2019

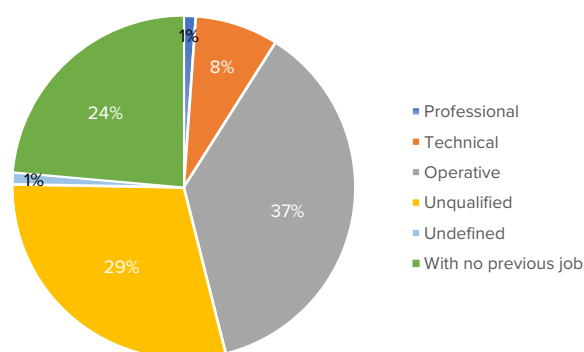


Source: INDEC.



Low-skilled workers accounted for two-thirds of unemployed workers, while an additional 24% are people who never worked (presumably young people).

■ Figure 6. Unemployment by workers' skills iv qtr 2019



Source: INDEC.

In 2002, the last significant economic crisis, the unemployment rate reached a peak of 21.5% in May 2002, while the under-employment rate peaked at 19.9% in October 2002, showing that around 40% of people had employment trouble.

However, the labour market shows some differences when compared to 2001/2002 that could help to cushion the drop in the employment rate: the share of public employment in total employment is now higher than in 2001. According to data from INDEC'S Census for 2001 and 2010, the number of public employees had increased by 56%. According to data from INDEC, in 2012 there were 2.5 m public workers, which represented 28.4% of total employees, and 23.4% of total workers (including independent workers). In December 2019, public employees totalled 3.2m people, and accounted for 34.7% of total formal employees and 26.5% of the total.

3.3.2. Informality

In December 2019, there were 12.1 m registered workers, of which 8.5 m were private workers. 6.0 m were private sector employees, while the others were independent workers, of which 1.6m were "monotributistas" (self-employees, of which a great part are professionals), 871,000 were "monotributistas sociales" and domestic workers (self-employees with the lowest incomes), and 398,000 were independent workers with the highest incomes. Hence at least there are nearly 2.5 m independent workers (including monotributistas and domestic workers) for whom it will be difficult to go through the shutdown without earnings.

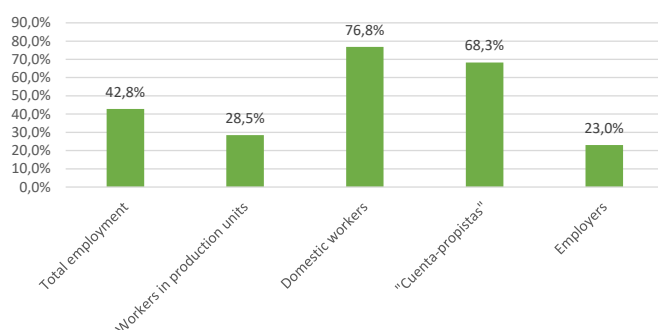
Informal workers are the most vulnerable to a severe economic downturn. Women, young people and the elderly are particularly affected by informality. Their incomes are low, so there is a strong link between informality and poverty.

According to the 2018 National Workers' Survey on Employment, Labour, Health and Security Conditions prepared by the Ministry of Production and Labour⁶, informality affected 42.8% of total workers. Informality affected 28.5% of those private sector employees who worked in production units, while 76.8% of domestic workers were informal. Among independent workers, informality affected 68.3% of "cuenta-propistas" (mostly non-professional workers, such as street vendors, craft vendors, or repair workers), and 23% of those who were employers.

⁶ Ministerio de Producción y Trabajo, "Encuesta Nacional a Trabajadores sobre Condiciones de Empleo, Trabajo, Salud y Seguridad (ECETSS 2018)", Ciudad de Buenos Aires, Octubre 2019.



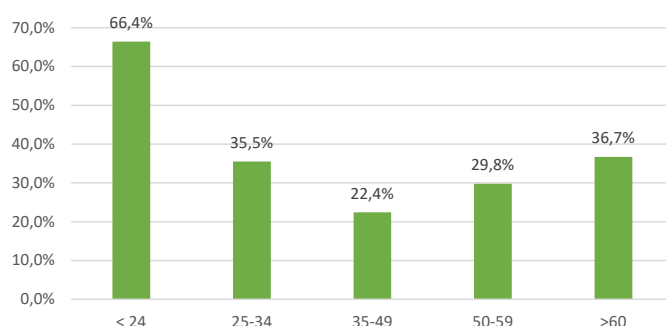
Figure 7. Informality as a share of:



Source: Ministerio de Producción y Trabajo.

Informality was especially higher among the younger and older workers. It climbed to 66.4% for those under 24 years old, and 35.5% for those between 25 and 34 years old. It declined for middle-age workers and climbed again to 36.7% for workers above 60 years old.

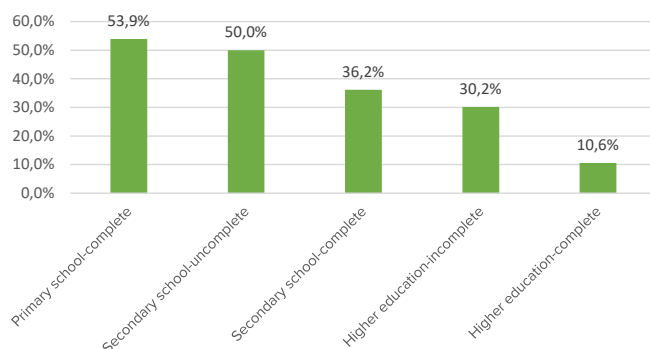
Figure 8. Informality according to age groups



Source: Ministerio de Producción y Trabajo.

Informality peaked to half (or even more than half) of workers with low educational attainment (with primary education or incomplete secondary education). It showed a notable decrease just for workers with complete tertiary education.

Figure 9. Informality according to educational attainment

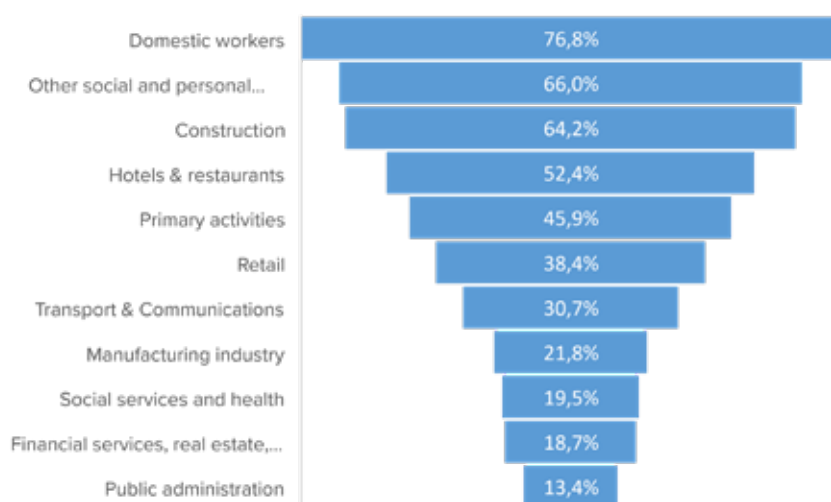


Source: Ministerio de Producción y Trabajo.



Informal employment shows wide differences across economic sectors, with domestic workers, social and personal services and construction at the top, while more than half of hotels & restaurants' workers are informal. The retail sector had also a high share of informal workers (38.4%).

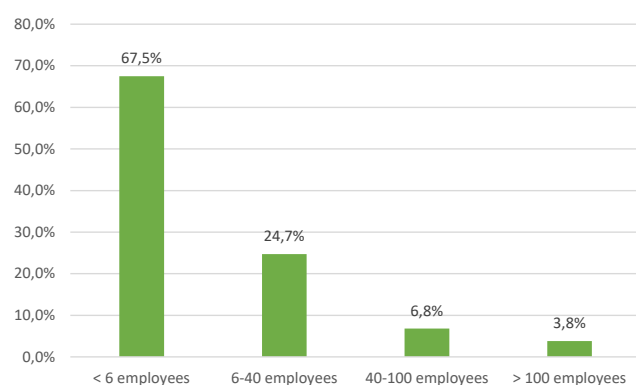
■ **Figure 10.** Informality according to economic sector



Source: Ministerio de Producción y Trabajo.

Informality peaked at 67.5% for the smallest companies (with less than 6 workers), while it was just a mere 3.8% in the biggest companies.

■ **Figure 11.** Informality according to unit's size



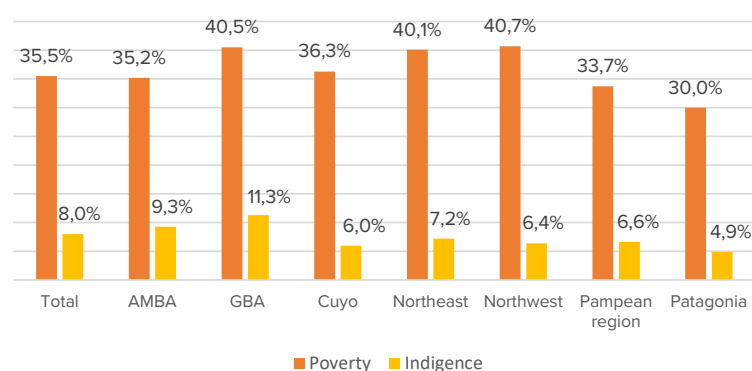
Source: Ministerio de Producción y Trabajo.



3.3.3. Poverty

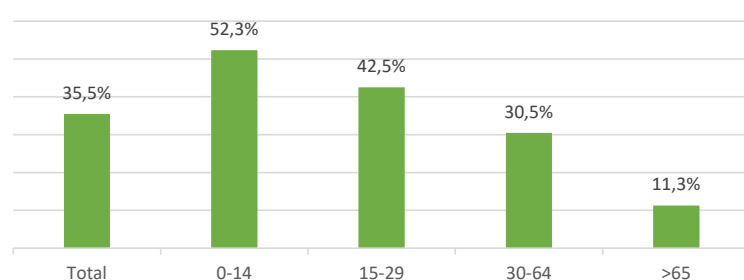
In the second half of 2019, 35.5% of the population was poor, with 8% living in extreme poverty (indigence). Poverty hit harder among children and young people, affecting 52.3% of those under 14 years old, and 42.5% of those between 15 and 29 years old. It was also higher in some regions, such as Greater Buenos Aires (40.5%), Northeast provinces (40.1%) and Northwest provinces (40.7%).

■ Figure 12. Poverty and Indigence II half 2019



Source: INDEC.

■ Figure 13. Share of poor by age group



Source: INDEC.

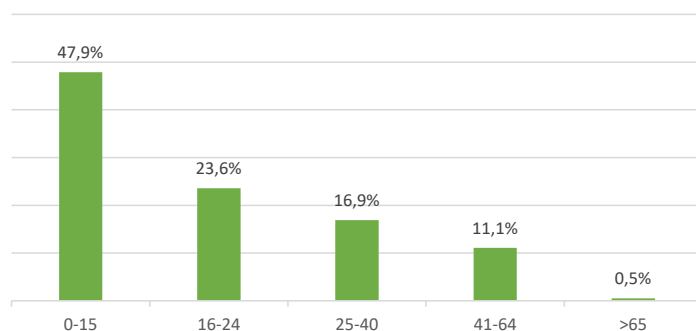
A deeper analysis on socio-economic conditions can be made using a broader concept, chronic poverty, which seeks to identify the drivers that make poverty a persistent condition, beyond economic growth and social policy interventions. One central feature of chronic poverty is its intergenerational reproduction. In a working paper prepared by Gasparini, Tornarolli and Gluzmann,⁷ they analysed the profile of the 10% of the population that can be considered as “chronically poor people”.

Children are especially affected by chronic poverty: they represent nearly a half of the total. By contrast, the elderly accounts for just 0.5% of chronic poverty, mainly due to non-contributory pensions.

⁷ Gasparini L., L. Tornarolli and P. Gluzmann (2019), “El Desafío de la Pobreza en Argentina”, CEDLAS/PNUD/CIPPEC, Buenos Aires.



■ Figure 14. Chronic poverty by age % of total



Source: Gasparini, Tornarolli and Gluzmann.

Chronically poor people live in poor housing conditions: the number of people living in a house is 6.1 on average, with 2.5 children below 12 years old. Houses are of poor quality, overcrowded, and their sanitary conditions are much worse than that of non-vulnerable households, especially concerning sewage and hygiene. Though chronic poverty is usually identified with those who live in urban “villas miserias” (shanty towns), an important percentage of chronically poor people live outside them (in poor neighbourhoods), a feature that has implications concerning public policies (which are usually focused on “villas” population).

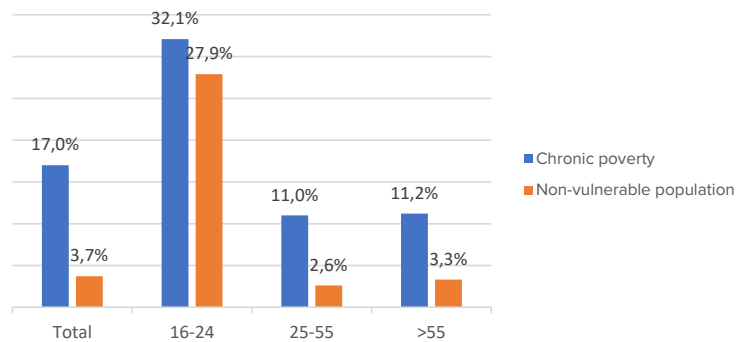
■ Table 1.

	Chronic poverty	Non-vulnerable population
Nr of household members	6,1	1,9
Nr children < 12 years	2,5	0,3
Nr people per room	1,5	0,4
% poor quality houses	6,2%	0,6%
% of houses with access to safe water	98,5%	100%
% houses with sewer system	28,9%	92,7%
% of houses with hygienic bathroom	63,4%	99,8%

Source: Gasparini, Tornarolli and Gluzmann.



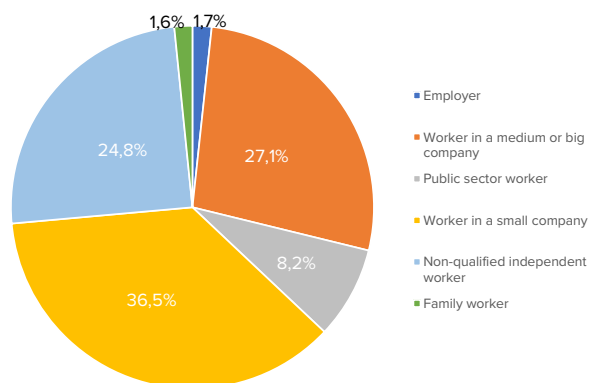
Figure 15. Chronic poverty Unemployment by age



Source: Gasparini, Tornarolli and Gluzmann

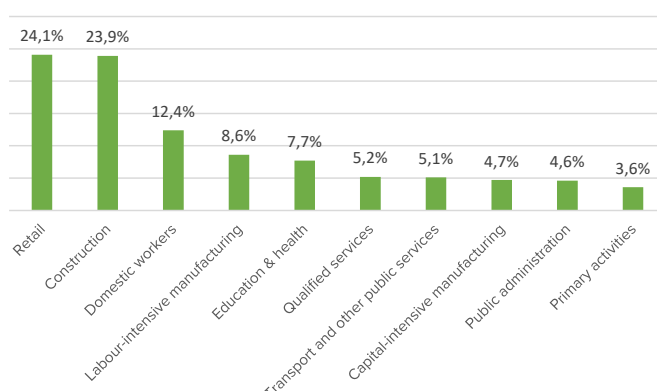
Workers suffering from chronic poverty are mostly employees in small firms and, to a lower extent, employees in larger firms and self-employees. They are mostly employed in the retail sector (many of them are street vendors), in the construction industry and in domestic services.

Figure 16. Chronic poverty by labour conditions



Source: Gasparini, Tornarolli and Gluzmann

Figure 17. Chronic poverty: workers by sector



Source: Gasparini, Tornarolli and Gluzmann



4. Potential for social unrest

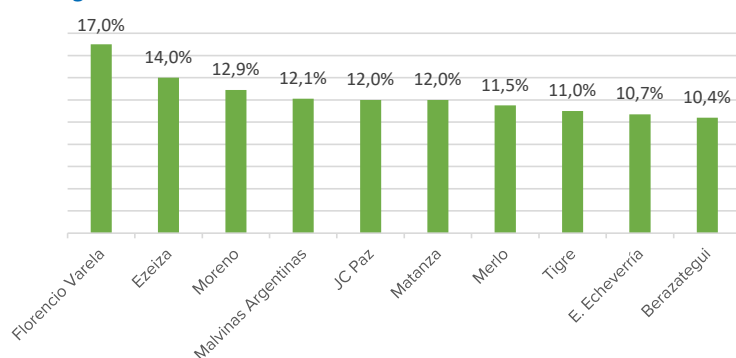
Despite the unfavourable economic scenario (characterized by a long recession and high inflation), in 2019 Argentina experienced a surprising orderly political transition between a non-Peronist government (Mauricio Macri) and a Peronist one (Alberto Fernandez). This was largely the result of broad social welfare programs that help to protect the most vulnerable households, such as the AUH (universal child allowance following a conditional cash transfer scheme), which was not in place in 1989 nor in 2001.

However, the current scenario poses important challenges, especially in the Greater Buenos Aires area (GBA, which includes a group of 33 districts surrounding Buenos Aires city with a population of about 10 m people), where unemployment, poverty and informality hit harder, and living conditions are poor, with overcrowded houses, poor health, and restricted access to safe water. Greater Buenos Aires accounts for half of total poverty (with nearly 5 m people under the poverty line in the second half of 2019) and 61.8% of extreme poverty (with 1.4 m extreme poor).

An important part of the population are informal workers with low incomes and no cash cushion, so if the quarantine extends for a long period there is a growing risk of riots and lootings in the poorer neighbourhoods of Greater Buenos Aires. At the same time, the Buenos Aires metropolitan area is now the outbreak's epicentre (Buenos Aires city and province account for more than half of the total confirmed cases by the second week of April), so the pandemic creates a severe challenge: if quarantine is lifted, the risk of an uncontrolled virus spread boosts. However, if isolation measures are extended, there is a growing risk of riots and looting.

Living conditions in Greater Buenos Aires are inadequate for most of its population. According to INDEC's figures for the second half of 2019, 40.5% of the GBA population was poor (equivalent to nearly 5m people), while 11.3% was extremely poor (1.4 m people). Unemployment was 10.8% in the last quarter of 2019, while under-employment was 13%, showing that nearly a quarter of the labour force had labour troubles. Self-employees represented 28% of total employment, while informal employees accounted for 38.4% of the total. According to a report prepared by the Dirección Nacional de Relaciones con las Provincias (DINREP) of the Ministry of Economy using data from the 2010 Census⁸, 9.2% of GBA households had unsatisfied basic needs: that figure is surely higher now, given that poverty rates have increased since then. There were many districts where it was well above that figure, hiking to 17% in Florencio Varela, in Southern GBA. The prevalent unsatisfied need was overcrowded houses, a key risk factor for virus spread.

■ Figure 18. Unsatisfied basic needs, 2010 GBA districts



Source: Ministerio de Economía

⁸ DINREP, "Necesidades Básicas Insatisfechas: Información Censal del Año 2010", Enero 2014, Ministerio de Economía.



From a political viewpoint, the fact that the current government represents the Peronist party is an advantage for political governability, as most trade unions and social organizations identify with that party, while the poorest households are Peronism's traditional electorate. Most destabilizing episodes of social unrest happened during non-Peronist government (such as 1989 and 2001), except for 2002, when the deaths of two political activists that belonged to a social organization during a social protest triggered the decision of president Eduardo Duhalde to bring forward presidential ballots. So, although a Peronist government could be in a better position to prevent destabilizing social unrest, it will depend to a great extent on the magnitude of the economic crisis and its ability to handle it.

5. Policy options

The outbreak found Argentina in difficult macroeconomic conditions. The economy has been stagnated for more than a decade, with double-digit inflation rates. However, conditions have worsened since 2018, due to a combination of political uncertainty and policy mistakes. In 2018 real GDP decreased by 2.5% and in 2019 it contracted by 2.2%. Inflation has climbed from 25% in 2017 to 47.6% in 2018 and 53.8% in 2019. Real wages contracted in 2018 and 2019.

In 2018, with no access to private lending, the Macri administration had signed a stand-by agreement for about US\$57bn with the IMF, seeking to remove investors' fears about sovereign debt sustainability and so reverse capital outflows. However, the package failed to boost investors' confidence, and capital outflows continued to put pressure on international reserves, which fell from a peak of US\$68.4bn in March 2019 to US\$43.1bn in November 2019. In the third quarter of 2019, public debt totalled US\$311bn, equivalent to 91.6% of GDP. The end of renegotiations and the debt restructuring were expected to help the government to regain access to private lending. However, the result of debt renegotiations is unclear, and a new debt default would significantly limit the government's policy options. In 2019 the primary deficit was PS208.8bn (-0.96% of GDP) and the financial deficit was Ps933bn (-4.28% of GDP), and the pandemic, with the combination of lower tax revenues and boosting expenditure is expected to worsen these figures. Data from March showed a dramatic rise of the government's primary deficit, which totalled Ps124.7bn, up from Ps13bn in the same month of 2019. Given this scenario, policy options are limited.

5.1. Current social programmes

The pillars of the government's social programs are the universal child allowance (AUH), the child allowance for formal workers (Asignaciones Familiares), the unemployment insurance benefit, and, since January 2020, the food card (Tarjeta Alimentar).

▪ AUH

The AUH was implemented in 2009, seeking to extend the benefit received by formal workers to informal ones, unemployed workers and "monotributistas sociales". Households receive a benefit per child below 18 years old (up to 5 children). The benefit ranges between Ps3,000-Ps4,000 (approximately USD 50) per child. 20% of the benefit is conditioned to children's school attendance and health controls. Around 2.4m households and 4.0m children receive this benefit. Coverage is already high.

▪ Asignaciones familiares

This benefit is received by formal workers, self-employees, and those who receive the unemployment insurance. The amount is computed according to each worker's income. This program benefits around 4.7m children.



▪ **Unemployment insurance benefit**

There are around 120,000 unemployed workers that receive this benefit. This benefit extends for a maximum of 12 months (those workers older than 45 years can extend it for 6 months) but decreases during this period. The amount was raised to Ps6,000-Ps10,000 in April 2020. In order to be eligible for this benefit, the worker had to be laid off from a formal job.

▪ **Food card**

This benefit is received by AUH beneficiaries with children below 6 years old and pregnant women that receive the universal pregnancy allowance (AUE). The benefit ranges between Ps4,000 (approximately USD 50) and Ps6,000 and is expected to reach 1.5 m households.

5.2. Macroeconomic environment and recent measures

With a high fiscal deficit, no access to private lending, and with a historically low Argentine Peso demand, the government has few tools to prevent a major economic depression. In line with the policies implemented in other countries, the government has announced some measures that seek to smooth the impact of social distancing measures in households' incomes and companies' liquidity, however the delay in their implementation and the severity of the situation of many households and companies suggest that they could not be enough given that social distancing measures will be in place for a long time.

The government announced different measures to relieve companies of non-essential industries that are hit harder by the pandemic.

- **Tax payments:** the government decided to postpone or significantly reduce the payment of payroll taxes for companies in non-essential activities for a two-month period. The specifics of these measures have not been established yet, creating a vacuum for many firms that do not yet know whether their activities are essential or not.
- **Wage payments:** the government will subsidize wage payments in companies affected by the crisis. In March it had announced that it would pay part of workers' wages, with coverage varying according to the companies' size, but in April it decided to make a more uniform subsidy, paying half of private workers' wages in companies with up to 800 workers, with a cap of two minimum salaries. 1.6 m workers of 158,731 companies would receive the benefit. Again, the specifics of these measures have not yet been established.
- **Bank loans:** the government announced subsidized loan programs to finance companies' working capital, and also independent workers, seeking to prevent a break-up in the supply chain, which is already very tight. However, small and medium businesses have faced trouble in complying with banks' credit requirements.

In order to prevent a major worsening of social conditions, the government announced the following measures:

- A rise in the unemployment insurance benefit.
- A bonus for beneficiaries of AUH (universal child allowance) and for retirees that earn the minimum pension.
- An emergency subsidy (Ingreso Familiar de Emergencia) of Ps10,000 in April for those who are unemployed, for informal workers and for independent workers with the lowest incomes (the lower categories of "monotributo"). Around 12 m people applied to receive this benefit. In February 2020 the value of the basic goods & services basket for a household of a couple and two children was Ps40,800: with earnings lower than that amount the household is below the poverty line. If both adults can receive the IFE, it would cover half that basket.



- A bonus for beneficiaries of the Food Card.
- The strengthening of soup kitchens.
- Price ceilings for some groceries, cleaning products, medicines and medical inputs.
- A zero-interest subsidy to upper categories of “monotributistas” and independent workers to be deposited in their credit cards up to Ps 100,000. The details of this measure have not yet been disclosed.

In mid-March, at the start of the COVID-19 outbreak, the government had announced the relaunch of “PROCRE-AR”, a subsidized credit line for housing construction, and new funds (PS100bn) for new infrastructure works in roads, schools and tourism. However, it soon realized that this was not the time for stimulus policies, but for measures to relieve the situation of those most affected by the pandemic (both households and companies). Moreover, the government cannot encourage infrastructure programs given the need for social distancing measures.

So far, policy interventions focused on restoring households’ incomes and supporting firms, especially small and medium businesses, in order to avoid widespread bankruptcy have been limited.

As mentioned above, the government has responded with some income maintenance support measures for poor households and for people receiving the minimum pensions. Such measures increase the resources of individuals that will continue receiving monthly income regardless of the economic crises.

Measures aiming at sustaining the income of workers outside the ones covered by AUH and IFE have not been implemented at the same pace. The loss of income for both formal and informal workers in non-essential activities is very important and no measures have been taken for them beyond the announcement of the emergency subsidy -whose initial claims have quadrupled the available number of subsidies and has not been implemented so far. The situation is expected to worsen if the lockdown continues and more workers are laid off⁹.

The relief package is expected to cost 3% of GDP (Ps 850bn), according to government’s estimates. The government has not yet explained how it will finance this package. Some alternatives that have appeared in the scene are:

- A group of legislators from the official party are preparing a bill to implement a “wealth tax” levied on those with a net worth higher than US\$3m. The tax rate would range between 2-3.5%, and legislators expect to raise US\$3.0bn (Ps190bn). The funds would finance the relief package.
- The government has made a debt restructuring proposal that includes a grace period of three years. If this proposal were accepted, in 2020 it would save US\$4.5bn (equivalent to Ps 280bn) of debt-service on swapped bonds. A deal with creditors would allow the government to regain access to private lending once turmoil in global markets recedes.
- The government could ask for a new allocation of IMF’s Special Drawing Rights (which was expected to climb to US\$3.5bn), a tool that was encouraged by IMF’s head Kristalina Georgieva, but that, by the end of April, was still on hold.

There are other financial proposals. Legislators from PRO, in the political opposition, presented an alternative bill to the “wealth tax”, that seeks that those with a net worth higher than Ps 200m (about US\$3m) make a “patriotic investment” equivalent to 2.5% of their net worth. Unlike the bill encouraged by official legislators, taxpayers would

⁹ While the government has issued an Executive Decree that forbids the firms from laying off people during the crisis, firms in non-essential activities are de facto stopping wage payments- or at least reducing them- for their employees.



be able to choose among different investment tools to channel these funds (construction projects, purchase of capital goods, securities' underwriting, etc).

5.3. Policy options and problems

Policy options: companies

Though there is not much certainty about the COVID-19 pandemic, one thing is clear: in the absence of an effective vaccine, the shutdown can be lifted only gradually if a new outbreak is to be avoided. This has different implications:

- The lifting of the lockdown will have to be parallel to the implementation of new health protocols, which will have a cost in terms of the new infrastructure needed to comply with social distancing and will also have a cost in terms of a lower capacity utilization.
- There are some industries that will suffer a more prolonged shutdown, for which the return to the "old normal" could happen well beyond 2020. These industries will demand more prolonged package reliefs, as well as more funds to readapt their infrastructure. This group includes: the tourism industry, the entertainment industry (including from cinemas and theatres to massive sporting events), long-distance land and air passenger transport (including also infrastructure such as airports), and private education.

The government's goal should be to prevent a massive bankruptcy of companies, especially small and medium businesses, which would mean a permanent loss of capabilities in many industries.

We think that in the short-term (while the shutdown is stricter), relief measures should focus on wage payment subsidies, subsidized loans and tax deferrals (or even tax relief) for companies in non-essential activities (especially small and medium businesses). In the medium and long-term, the focus should be in those industries which will suffer the more permanent shock, for which there should be subsidized loans to finance the adaptation of infrastructure to the "new normal".

Policy options: households

Policies have focused on cash transfers to strengthen the incomes of the most vulnerable households and to maintain earnings for workers in non-essential activities. But as the shutdown will be lifted only gradually, these benefits will have to be kept for a long time.

There is some consensus that the government's efforts should be focused in the Buenos Aires metropolitan area (AMBA), given its high share of the total population, high share of total poverty and its high population density. This area is also the outbreak's epicentre. Many of those in extreme poverty live in large shanty towns, where the risk of contagion is much higher, which could lead to a peak that exceeds the capacity of the health system. Efforts should also be focused in other large cities such as Rosario (in Santa Fe province) and Córdoba (in Córdoba province), which share many features with AMBA.

We think that, apart from monetary interventions to strengthen incomes, the focus should be on improving access of the most vulnerable households to quick primary care where potential COVID-19 patients are soon identified, isolated and receive the adequate treatment. Among the poorest households, some diseases that are not potentially dangerous become deadly because they do not receive medical treatment soon enough, so for COVID-19 patients this risk is even higher.



Policy options: infrastructure

Considering that social distancing will be in place until the first half of 2021 (at best), two key areas to improve are public urban transport and networking technologies.

- **Urban transport:** urban transport is one of the main drivers of contagion in big cities, as they are usually overcrowded at rush hours. There are some measures that could reduce this problem such as staggered work hours and the use of long-distance buses -which are not circulating due to the restrictions to travel within Argentina- to complement local bus lines. Some measures to reduce the cost of car use would also help.
- **Networking technologies:** improvements in internet connectivity and easier access to personal computers would help to improve tele-working productivity, and would be key for tele-education, especially among the most vulnerable households, for which some subsidies will be needed.

Once the pandemic is over, the government should focus on measures to fuel demand and improve social infrastructure.

There are some areas in which infrastructure works will help to jointly improve public health and offset the reduction of income in low-income households:

- **Programs to improve access to clean water and sewerage.** According to figures from INDEC for the first half of 2019, 13.3% of the population had no access to public water systems: 10.1% had access to water from well drillings, and for 3% of population the water source was outside their homes. 7.5% of the population (equivalent to 1.3m people) lacked a flush toilet.
- **Programs to improve housing conditions.** 4.7% of the population (1.3m people) suffered from critical overcrowding, living in houses with more than 3 people per room. 12.8% of population (3.6m people) lived in floodable areas, while 7.6% (2.1m people) lived near landfills. 8.9% of the population (2.5m people) lived in houses made of poor-quality materials.

Financing options

One of the main problems that companies are facing is how to pay wages of workers in non-essential activities, given that these sectors are not generating revenues. According to estimates from Analytica, a private consulting firm, there are around 6.9m workers in non-essential activities, while there are other 5.4 informal workers and self-employees whose jobs are also at risk.

Formal private sector workers in non-essential activities¹⁰ amounted to 3.2 m in February 2020. Many industries are already negotiating wage cuts with trade unions.

The government faces decreasing tax revenues, while it must finance a relief package for workers in non-essential activities and for the most vulnerable households. We think that a measure that would help to both alleviate government and companies' finances is a 20% cut of wages in non-essential activities¹¹, including:

¹⁰ The activities considered as non-essential were: construction, hotels & restaurants, real estate and professional services, and social and community services. We computed a share of workers from manufacturing industry, commerce and repairing services.

¹¹ The percentage could be lower for lower wages, and higher for higher wages.



- Private workers in non-essential industries.
- Public employees of non-essential activities.
- High-ranked government officials, legislators and privileged pensioners.

The measure should extend while those activities remain as non-essential.

Both government and political opposition proposed an extraordinary tax on the net worth of the wealthiest taxpayers. However, in such a deep economic crisis instead of levying a tax on a wealth stock, it could be more reasonable to levy an extraordinary tax on those companies that are facing an unexpected boost of demand, particularly big companies in industries such as pharmaceuticals, cleaning products, e-commerce, and big supermarket chains. Another alternative could be a sort of “patriotic bond” such as that underwritten by big companies in 2001, to help to finance the government’s needs.

Concerning the financing of social infrastructure (housing and water & sewage), as well as the adaptation of infrastructure to social distancing standards, the government could borrow from development banks or international organizations.

6. Conclusion

The early adoption of social distancing measures has helped Argentina to slow the virus spread, avoiding (so far) uncontrolled scenarios such as those observed in the US, Italy or Spain. However, the already difficult economic and social scenario that the country faced before the COVID-19 outbreak makes the trade-off between health and economic concerns more difficult. Policy interventions must focus on relief measures for households and companies (especially small businesses) during the pandemic’s outbreak (when the shutdown hit both supply and demand), and stimulus measures once social distancing measures are lifted. While this is the consensus for most countries, the outlook is particularly challenging for Argentina due to its fiscal imbalances, its high debt burden and its already deteriorated social and economic network. With no cash cushion, the government has few alternatives to finance the relief measures (and eventually the stimulus package): money printing (with the risk of an inflationary spiral) or multilateral lending. In fact, the relief measures set up so far are lower in terms of total GDP than those of other Latin American countries.

The challenges are enormous, since, as mentioned, the policy options are limited, and the next few weeks are crucial in terms of which scenario might prevail. The country has offered an initial proposal for debt restructuring and the results of such negotiations are uncertain. The risk of a default on foreign debt will probably not have immediate consequences due to the crisis the country is in. However, it will hinder the possibilities of a better and quicker recovery, since it will harm private debt markets. On the monetary front, Argentina’s inflation was above 50% during 2019 and monetary printing poses the risk of accelerating inflation.

One of the government’s main challenges ahead is to avoid a social and health crisis, especially in Greater Buenos Aires, which accounts for a half of the country’s total poor population and is also the epicentre of COVID-19 outbreak. There are some social programmes that are easily scalable, such as AUH, the unemployment insurance benefit, and the food card. However, the demand for the newly Ingreso Familiar de Emergencia exceeded expectations and has shown that the number of unprotected people is much higher than initially considered. All the social benefits in place to fight the crisis are not indexed to inflation and their purchasing power will be eroded quickly if inflation accelerates. This means that new social aid will need to be discussed, given that the economy’s reopening will take a long time. The prevention of a social and health crisis will demand further surveillance measures especially in the poorest neighbourhoods, a delicate task given the country’s political past.



The other challenge is to prevent a widespread bankruptcy of small businesses in non-essential sectors. The gradual reopening of the economy means that a great number of sectors will remain closed or will be working at a very low capacity, so a new package of measures that include subsidies to pay salaries, loans to pay debt to suppliers, and tax relief will be needed. An accurate evaluation of the effectiveness of this package will also be needed.

The experience of the countries that have succeeded in controlling the outbreak and have started to relax the lockdown shows that this process must be gradual and could extend for a long time. For Argentina, the fact that there are still four to five months of cold weather ahead makes things worse. The government has extended the quarantine until the expected May/June peak (or even beyond it). However, increasing pressures from business representatives and political actors (not just from the political opposition but also local leaders such as governors and mayors), and fears of a social crisis will hinder this possibility. It is crucial that the quarantine lift is gradual. This will demand a challenging coordination between economic policy intervention (with the implementation of new relief measures for the most affected economic and social actors), the maintenance (and control) of some social distancing measures, the strengthening of the public health system, and the challenge of widespread testing to contain the virus spread and prevent a new peak. While this coordination is truly difficult for every government, it is even more demanding in Argentina given its fragile political equilibrium, its long-standing governance problems and the limited managing capabilities of its political leaders.

References

DINREP (2014), "Necesidades Básicas Insatisfechas: Información Censal del Año 2010", Ministerio de Economía, Enero de 2014.

Gasparini L., L. Tornarolli and P. Gluzmann (2019), "El Desafío de la Pobreza en Argentina: Diagnóstico y Perspectivas", CEDLAS/PNUD/CIPPEC, Buenos Aires.

Guerrieri V., G. Lorenzoni, L. Straub., and I. Werning (2020), "Macroeconomic Implications of COVID-19: Can Negative Supply Shocks Cause Demand Shortages?", NBER Working Paper 26918, Cambridge, MA, April 2020.

Hevia C. y A. Neumeyer (2020), "A Conceptual Framework for Analyzing the Economic Impact of COVID-19 and its Policy Implications", [UNDP LAC C19 PDS No. 1.](#)

JP Morgan, Chase & Co Institute (2020), "Cash is King: Flows, Balances and Buffer Days: Evidence from 600,000 small businesses", September 2016.

Levy S, (2020), "Suggestions for the Emergency", [UNDP LAC C19 PDS No. 2.](#)

Ministerio de Producción y Trabajo (2019), "Encuesta Nacional a Trabajadores sobre Condiciones de Empleo, Trabajo, Salud y Seguridad (ECETSS 2018)", Ciudad de Buenos Aires, Octubre 2019.

Triggs, A. and H. Karas (2020), "The triple economic shock of COVID-19 and priorities for an emergency G-20 leaders meeting", Brookings, March 2020.

UNDP Latin America and the Caribbean
COVID 19 | POLICY DOCUMENTS SERIES



www.latinamerica.undp.org

We acknowledge the kind support of the Spanish Cooperation.

