Laundering Money in Argentina

In a speech last November, President Cristina Fernández de Kirchner regretted that she did not possess “a little machine to print dollars”. Over the past few years, Argentina’s international currency reserves have slid considerably. Since the country is virtually blocked from international capital markets, using reserves is its only way to pay off its remaining debt. To protect those reserves, Ms Fernández has effectively blocked the sale of dollars at the official rate since she was reelected in 2011.

The policy has succeeded in reducing capital flight, but expensive energy imports and limp tourism figures have continued to erode the reserves, which fell by $4.7 billion in the first five months of 2013, to their lowest level in six years. Economists do not expect that downward trend to slow. Quantum Finanzas, an economic consultancy, predicts that reserves will fall by another $3.6 billion this year and by $9.7 billion in 2014.

Ms Fernández’s “dollar clamp” has also created a hungry black market for dollars. As they watch inflation ravage their peso savings by 25% a year, Argentines are willing to pay prices far above the official rate to get their hands on greenbacks. At the beginning of May the black market rate, or “blue” dollar as it is known in Argentina, shot to 10.45 pesos to the dollar, nearly twice the official rate.

Ms Fernández is understandably anxious to reduce the size of the black market and find a new source of dollars. In May, following the blue dollar’s spike, she announced a plan that aims to accomplish both those goals.

The scheme, referred to locally as the “laundering law”, invites those with undeclared dollars to invest in property and the energy industry without facing penalties for their previous financial chicanery. The government believes that Argentines have about $160 billion tucked under their mattresses or hidden away in foreign bank accounts. That is about four times the value of Argentina’s foreign currency reserves.

Under the plan, citizens can trade their dollars for two financial instruments: a dollar-denominated bond for investments in Argentina’s energy sector, and a dollar-backed certificate valid for property transactions, known as a CEDIN. Whereas the energy bonds will not launch until July 17th, the CEDINs made their entrance on July 1st.

In exchange for their surrendered dollars, investors will be awarded a certificate of equal nominal value which must be spent on buying or renovating a house, business premises or land. The recipient of the CEDIN may then sell the certificate or cash it in for real dollars at the Central Bank. Alejandro Vanoli, head of the financial services regulator, declared that the certificates will have a “revitalising” effect and “bring an interesting level of liquidity to the economy”.

Economists are less sure. Miguel Kiguel of EconViews, a consultancy, wrote in a note that the certificates will attract $2 billion at most, and that most holders will swap the quasi-currency for real dollars after validating them in the property market. In an interview with Reporte Inmobiliario, a property journal, Daniel Muchnick, an economist, wondered: “Who, how and in what way is someone, with this repressive government, going to want to take their illegal money and enter into the conventional world? And moreover, who is going to want to invest their assets in a place where foreign currency can enter, but it will not be allowed out?”

The market is equally pessimistic. Some 70% of estate agents doubt that the CEDINs will reinvigorate the property market, which has been damaged by the government’s foreign-exchange controls. Argentines used to buy and sell their houses in dollars; the crackdown has therefore resulted in 16 consecutive months of falling sales. They fell by 35% last year and by 41% in the first three months of this year. Construction also recently suffered its worst decline in 10 years.

Some estate agents are more upbeat. A banner on Tizado Property’s home-page reads: “The CEDIN is real. It is time to invest in bricks.” But Tizado is in the minority. Although the CEDIN may have a modest effect on reversing downward trends in the property market and construction industry, it is unlikely to prove a panacea. By July 3rd, two days after the CEDIN’s debut, the government had yet to sell a single certificate. In Mr Kiguel’s words, the hope that the CEDIN will stop the fall in reserves seems to be “more based on a fantasy kingdom than the reality”.