

Devaluation Hurts Argentina's Regional Standing

Colombia Has Likely Overtaken Argentina as Latin America's Third-Largest Economy

By
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People marching against high rates of inflation in Buenos Aires. *Reuters*

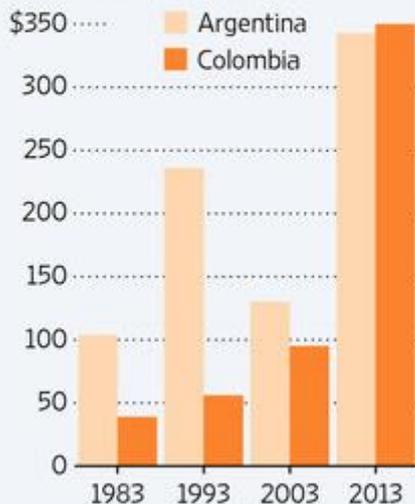
Following Argentina's humbling currency devaluation, the country is suffering another economic embarrassment: Colombia has likely overtaken it as Latin America's third-largest economy.

After Argentina's economy dwarfed Colombia's for decades, economists say the trend reversed in January as the sliding value of Argentina's peso made its economy smaller in dollar terms. Argentina's devaluation later in the month erased any doubt, economists say.

Capital Economics, a London-based research company, estimates Argentina's annual economic output at \$343 billion for 2013 using Argentina's new exchange rate of about 8 pesos to the dollar. Colombia's economy in 2013 stood at \$350 billion for 2013, according to the company.

Shifting Fortunes

As its currency slipped, Argentina's economy fell behind Colombia's in dollar terms. GDP, in billions:



Sources: World Bank (through 2003); Capital Economics

"This is symptomatic of a broader trend that is seeing Argentina's economic model unravel while Colombia's economy has been well managed," said Neil Shearing, chief emerging-market economist at Capital Economics.

Colombian officials, who have also touted their own estimates showing that Colombia has overtaken Argentina, have recently poked fun at their southern rival.

"It's like making it to an Olympic podium, and the truth is, in a competition no one remembers who came in fourth place," Colombian Finance Minister Mauricio Cárdenas said in an interview.

This is a new gloating opportunity for Colombia, whose reputation until a few years ago was sullied by cocaine cartels, widespread kidnappings and a civil war. It also underscores the chronic woes of Argentina, a country that at

the start of the last century was one of the world's richest.

"Our economy is in decline and things keep getting worse," said Julio Roig, a 73-year-old accountant in Buenos Aires. "Even Uruguay exports more beef than we do these days. Tiny Uruguay. That says a lot."

Argentine Economy Minister Axel Kicillof declined to comment.

Colombia says the ranking—which follows the far larger economies of Brazil and Mexico—is about more than boasting rights. "Having the third spot is of strategic importance because it attracts companies and is great for the image of Colombia," Mr. Cárdenas said. "Our country should be proud to be the third-largest economy in Latin America."

Many economists say that Argentina's currency controls, costly energy and transportation subsidies, high inflation and unpredictable government policies have weakened the economy. Amid the turmoil in emerging markets, Colombia has touted its disciplined spending and low inflation. Colombia's central-bank reserves were \$43.7 billion at January's end, the latest available figure, compared with Argentina's \$28.1 billion.

"In Colombia our policies have been to make the economy predictable and boring," said Juan Carlos Echeverry, a former finance minister. "And that is paying off."

Comparing the size of different economies can be tricky. Economists need a measuring stick—usually the dollar. But local currencies often fluctuate wildly against the greenback, making their economies in dollar terms sometimes seem bigger or smaller than they actually are.

"Currency rates fluctuate all the time. The really meaningful thing is that for several years now Colombia has embarked on a steady path to development by respecting private-property rights and setting clear policies," said Juan José Cruces, an economist and dean of the business school at Universidad Torcuato Di Tella in Buenos Aires.

Colombian officials had claimed for the past two years that their country had overtaken Argentina. But in making their case, they were using the value of Argentina's peso currency on the black market, where it trades at a significant discount to the country's official exchange rate. Argentines brushed off the comparison as unfair.

But now Argentina's economy appears to be smaller than that of Colombia using Argentina's official, regulated exchange rate—particularly after the peso slid about 19% in January alone. Since then, the peso has strengthened slightly.

Few economists think that the peso is likely to appreciate against the dollar this year given the country's estimated inflation rate of more than 25% a year. Further, many economists expect Argentina to enter a recession this year, while Colombia's economy is forecast to grow roughly 5%.

New economic research also adds to Colombia's claim to the third spot, suggesting that President [Cristina Kirchner](#)'s government has overstated the country's high growth rates.

Argentina's GDP is at least 12% smaller than the official size reported by the government, according to a study by economists at the University of Buenos Aires, whose work has been guided in part by an economist at Harvard University, Dale Jorgenson. Mr. Jorgenson says the research reflects "the international standards which the Argentine government stopped applying to its indicators."

Their findings, to be published next month in the journal *World Economics*, say that Argentina grew by only half of the 30% that Buenos Aires says it did from 2007 to 2012. The report says that instead of helping lead Latin American growth over the past 15 years, Argentina has trailed its neighbors since 1998.

"It's a myth that economy has grown at Chinese-like rates over the past decade," said Ariel Coremberg, a University of Buenos Aires professor who led the research. Before doing the research, Mr. Coremberg measured Argentina's economic growth for the government until 2007. "The economy has grown, but not by anywhere near as much as the government has reported."

Mrs. Kirchner's government unveiled a new inflation index this month that economists said was far more credible than the index it produced since 2007 that led to inflated GDP estimates.

Despite the humiliation of having fallen behind yet another neighbor in economic rankings, the Argentines believe they will surpass Colombia in one proud discipline: soccer. "Colombia can say whatever it wants, but we will be waiting for them...at the soccer World Cup," Mr. Cruces said.

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