

VARIAÇÃO CAMBIAL NA ARGENTINA E O IMPACTO NO PLANEJAMENTO FINANCEIRO DAS EMPRESAS

EXCHANGE RATE VARIATION IN ARGENTINA AND THE IMPACT ON COMPANIES' FINANCIAL PLANNING

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Resumo

Este estudo analisou a interação entre inflação, variação cambial e seus impactos na economia argentina durante o período de 2018 a 2023, quando a inflação ultrapassou 100%. Foi destacada a importância do planejamento financeiro em multinacionais europeias sediadas na Argentina, ressaltando os desafios na conversão de moedas para relatórios financeiros europeus. Para tanto, o estudo teve início com uma revisão bibliográfica abrangente sobre variação cambial, integrando análises das eleições presidenciais de outubro de 2023. Posteriormente, foram examinados dois estudos de caso relevantes: o Plano Real e a dolarização na América Latina. Uma comparação dos cenários econômicos desses casos foi realizada em relação à situação atual da Argentina, complementada por uma entrevista com uma colaboradora experiente de uma empresa atuante no país. Por meio da aplicação da ferramenta 5W1H, foi desenvolvido um plano de ação detalhado para mitigar os riscos associados à variação cambial nas operações financeiras da empresa. A solução temporária proposta após análise dos tópicos mencionados é a conversão integral dos resultados para euros, a moeda da sede da empresa. Essa medida visa proteger os resultados, mas requer esforços adicionais em pesos argentinos para atingir as metas.

Palavras-chave: Inflação; Economia; Dolarização.

Códigos JEL: M20; M29; P00.

Abstract

This study analyzed the interaction between inflation, exchange rate variation, and their impacts on the Argentine economy during the period from 2018 to 2023, when inflation exceeded 100%. The importance of financial planning in European multinationals based in Argentina was highlighted, emphasizing the challenges in currency conversion for European financial reporting. To this end, the study began with a comprehensive literature review on exchange rate variation, integrating analyses of the October 2023 presidential elections. Subsequently, two relevant case studies were examined: the Real Plan and dollarization in Latin America. A comparison of the economic scenarios of these cases was made in relation to the current situation in Argentina, complemented by an interview with an experienced collaborator from a company operating in the country. Through the application of the 5W1H tool, a detailed action plan was developed to mitigate the risks associated with exchange rate variation

in the company's financial operations. The temporary solution proposed after analyzing the mentioned topics is the full conversion of results to euros, the currency of the company's headquarters. This measure aims to protect the results but requires additional efforts in Argentine pesos to achieve the targets.

Keywords: Inflation; Economy; Dollarization.

JEL Codes: M20; M29; P00.

1. INTRODUCTION

The financial market holds great importance in the global economy, playing a significant role in the allocation and distribution of capital in society. However, a phenomenon that has gained prominence in recent times is inflation. According to Mankiw (2023), economists use the term inflation to describe the increase in prices. The rate that affects the prices of products (goods and services) especially impacts countries whose economic and financial management experiences some instability (Moreira et al., 2022).

The phenomenon of inflation has various causes. A practical example is what can occur in the production cycle of a good. Inflation can be present when there is an increase in demand and a decrease in supply, an increase in production costs (raw materials), or even due to government intervention in prices (Torres, 2023). Thus, high inflation rates can raise international prices and make domestic products more expensive, consequently interfering with a country's trade balance.

Rossi (2016) elucidates the concept of the exchange rate, which is related to the price of one country's currency in relation to another's and highlights that this relationship is affected by price instability. Therefore, the exchange rate compares two currencies and indicates the amount of one currency needed to acquire another. Consequently, changes in the exchange rate have a direct impact on various economic sectors, social classes, the productive structure, and income distribution. Thus, the instability caused by these price movements in the economy impacts companies' expectations, as the market is highly sensitive to price increases and uncertainties in the economic environment, especially regarding international negotiations. Organizations exposed to exchange rate risk seek contract alternatives to fix currency values, called currency derivatives (Ross et al., 2010).

In management accounting, the financial budget is the basis for all analyses and comparisons regarding actual performance. It is an annual practice that may or may not include monthly adjustments based on projections, including sales, margin, expenses, and EBIT (Earnings Before Interest and Taxes). For a multinational headquartered in Europe, for example, all currencies are converted to euros, carrying the impact of the conversion.

This article focuses on the economic context of Argentina, which, according to Torres (2023), has experienced economic instability over the past 12 years, evidenced by rising inflation. According to Holanda (2018), this scenario has been exacerbated by excessive social policies without governance and public account imbalances.

In light of the context presented, opportunities for research arise that aim to analyze the influence of exchange rate variation on organizations operating with Argentine currency and to promote mitigation strategies.

Given the above, the following research question arises: How does exchange rate variation impact the financial planning of Argentine organizations that operate with the local currency? What strategies can be adopted to minimize these effects?

So, this article aims to analyze and mitigate the impacts of the exchange rate variation of the Argentine currency on the financial planning of organizations operating in the country. To this end, a particular case of a company operating in Argentina was adopted.

2. METHOD

The preliminary phase of the research involved a bibliographic review to understand and deepen the theme of exchange rate variation, the economic scenario in Argentina, and currency exchange. This part of the study was conducted through books by renowned authors in the field of economics and studies on exchange rate variation. The research also considered the presidential election that began in October 2023; from this scenario, it was possible to observe the decisions made by the candidates and study them. Additionally, theoretical works that cite economic scenarios of countries that adopted new currencies were compared.

According to Vergara (2015), research types follow two basic criteria: regarding the ends and regarding the means. In relation to the ends, the purpose of this study is characterized as applied research, as its main objective was to intervene in the studied reality to modify it. The approach used was qualitative.

2.1 Participants

The procedure used was the case study, which is a broad research method that contributes to data collection for in-depth analysis and investigation, as well as theory testing. Through unstructured interviews with a collaborator from an automotive sector company located in Argentina, data were collected to understand more subjective aspects such as behaviors, ideas, and perceptions of managers. Thus, this research had an explanatory purpose.

During the process, an interview was conducted with a collaborator from the Argentine unit who has been with the company for more than 20 years, works in the financial sector, and could provide the Brazilian team with a realistic view of the country's economic scenario. Topics such as the dollarization of the economy, the nationalization of imported products, the payment of debt in Argentine pesos for dollarization to occur, and high inflation were addressed. Additionally, the financial results of the month and the future projection of the organization under study were analyzed, combined with the impact of the exchange rate variation during the period when the current president, Milei, assumed office. This allowed for a comparison of scenarios and possible impacts.

2.2 Instrument

The 5W1H tool was adopted to structure an action plan within the researched organization, with the aim of mitigating the risks of exchange rate variation in its financial operations. Through this tool, it was possible to identify all elements for the execution of a plan, whether strategic, tactical, or operational. The acronym 5W1H stands for the questions Who? What? Where? When? Why? and How?.

According to Candeloro (2008), an Action Plan can be defined as an administrative checklist of activities, deadlines, and responsibilities that must be established clearly and efficiently by all involved in the project.

3. RESULTS AND DISCUSSION

Inflation prompts each citizen to receive their salary and head straight to the market, as products undergo significant value fluctuations. The entire month's results and future projections were analyzed, combined with the impact of the exchange rate variation during the period when the current president of the country, Milei, assumed office. This ensured robustness in explanations at the global level.

The unit under study in this group is located in Argentina and reports its results to Germany in euros. Consequently, the widespread devaluation of the currency can be observed, especially since November 2023. One approach being employed is to retain euros and adjust pesos, considering that the global target must be met. Given the numerous fluctuations, more efforts are required to deliver the agreed-upon result, albeit with more Argentine pesos.

This section presents the results of the analysis of the Real Plan implemented in Brazil in 1994, election outcomes, promises of currency alteration, Latin American countries already utilizing the dollar as the primary currency, and the 5W1H concerning the analyzed company.

3.1 Real Plan

According to Modenesi (2005), the adoption of the Real Plan constitutes one of the most relevant events in contemporary Brazilian economic history, as it ended a succession of five failed attempts to combat inflation that marked the country's economic policy. These were the Cruzado, Bresser, Verão, Collor I, and Collor II plans. Unrestrained inflation had spiraled out of control, leading to exorbitant rates that resulted in numerous issues in the domains of politics, economics, and society. The Real Plan was instituted in an attempt to bring stability to the currency and curb inflation. According to Modenesi (2005), it was defined as a price stabilization strategy based on the adoption of a new monetary standard and the implementation of a currency anchor. Main measures of the Real Plan:

- Real Value Unit (URV): According to Silveira et al. (2005), before the implementation of the real as currency, exercising the functions of measurement of value, means of payment, and store of value, the indexed economy existing up to that point in the country saw the emergence of a unique index for the Brazilian

economic system: the Real Value Unit. The idea was to gradually prepare the economy for the currency change.

- Currency conversion: According to Bacha (1995), on July 1, 1994, after four months of contract conversions, the URV became a full currency, named Real, completing the monetary reform. Each URV was converted into one Real.
- Exchange rate anchor: According to Modenesi (2005), the exchange rate anchor is considered the essence of the third phase, as it would coordinate price formations and the expectations of economic agents. According to Silveira et al. (2005), the exchange rate anchor was maintaining the exchange rate around the one-to-one parity between the real and the dollar. This helped control inflation, as the Real became more stable in value relative to a strong currency.

Thus, it is noted that the plan managed to contain hyperinflation and create a foundation for long-term economic prosperity. Despite its achievements, there were criticisms and obstacles related to social inequality and inadequate infrastructure.

3.2 Elections in Argentina

After the second round of presidential elections in Argentina in 2023, the candidate chosen by the population with 55.69% of the votes was Javier Milei. Among various points to be implemented, the main one considered in this research was the dollarization of the country's economy. Milei's proposal is not the first in Latin America to be considered; there are other countries that have already implemented the dollar due to its competitiveness and have managed to halve inflation.

3.3 Dollarization in Latin America

According to data from Folha de S.Paulo (2023), the proposal to dollarize the economy is already a reality in some countries, such as Ecuador, El Salvador, Panama, and Venezuela. In almost all of them, annual inflation does not exceed 4% in 2023, meaning it has halved from the previous scenario, except for Venezuela, which still has one of the highest rates on the planet. Until September 2023, inflation reached 317%. As can be observed, dollarization gradually changes the economic landscape of the country. Some opted for this because they sought new foreign investments or were on the brink of hyperinflation. For a better comparison between the economic scenarios of the mentioned countries, details collected from Folha de S.Paulo (2023) are as follows:

- Ecuador: With the severe banking crisis that was occurring after a surprising loss of 5 billion dollars and the risk of hyperinflation, Ecuador made the decision in March 2000 to officially adopt the dollar as its currency. The decision was made after the Ecuadorian government imposed a bank holiday on the population and froze deposits by half, thus limiting the availability of money to the population during the financial hangover period. Through this move, Ecuador was able to successfully keep inflation at low levels, even sometimes entering deflation, and projects an

annual inflation of 3.10% in 2023.

- El Salvador: In the early months of 2001, Salvador decided to convert transactions into an easy and North American transaction to attract more foreign investments and improve trade. The country legalized the use of the currency, which occurred during the presidency of Francisco Flores from 1999 to 2004. At the same time, the transition was planned to reduce the risk of loss due to exchange rate instability and avoid the availability of credit in the banking sector. Thus, despite facing risks that could lead to hyperinflation, dollarization led to an increase in the cost of living and a sharp increase in prices of goods and services. El Salvador recently went through the legalization of the currency and, furthermore, was the first country to implement bitcoin as a means of payment. By 2023, inflation is expected to reach 3.3%.
- Panama: After gaining independence from Colombia and the construction of the Panama Canal, Panama adopted the US dollar as its official currency in 1904. Although the balboa, the local currency, also has coins in circulation, the dollar is widely used, mainly by the government for accounting purposes. Panama has maintained a low inflation rate, below 3% per year.
- Venezuela: Since 2018, Venezuela has informally adopted dollarization due to the economic crisis. Hyperinflation, scarcity of the bolivar (local currency), and energy problems led to the relaxation of exchange controls. Despite successfully overcoming hyperinflation after four years, Venezuela still faces one of the highest inflation rates in the world, with an annual rate of 317% in September 2023, according to data from the Central Bank.

3.4 Financial Planning for Companies

According to Gonçalves (2019), for-profit organizations recognize that operational planning is one of the most useful instruments in controller's work, as it serves as a fundamental parameter for controlling and analyzing the future behavior of the company. The future situation aimed at by the company is sought to be established in planning, as well as the possible means to achieve it. Therefore, planning is considered a valuable management tool. According to Beuren et al. (2002), planning can be compared to a kind of bridge that links the stages of "where we are" and "where we intend to be" from a future medium or long-term perspective.

The financial planning model upon which this research project is based is a monthly planning, where one of the group's companies is located in Argentina and reports the results to Germany in euros. Thus, the depreciation that has been occurring on a large scale since November/23 can be observed. One way being used is to keep the euros and adjust the pesos because the global target needs to be met, and with so many variations, more efforts are needed to deliver the same agreed-upon result, but with more Argentine pesos. Roehl and Bragg (1996) emphasize that managers will seek consistent information from the controller for decision-making regarding the direction to be followed: Through the controller, a company's management has the opportunity to ensure that its efforts are productive. It is with this area that

senior management and organization managers will seek consistent information in order to define the directions to be followed by the organization.

3.5 5W1H Action Plan

During the execution of this research, an informal interview was conducted with a collaborator who resides in Argentina and closely monitors the economic scenario, understanding the adversities in planning for the year 2024. During the interview, she mentioned the difficulty in predicting currency depreciations against the euro (since the parent company is located in Germany). The main way to reduce the impact of inflation is by raising the prices of items, but this leads to a decrease in the company's volume and market share.

Various situations were discussed to ensure that the company remains profitable and financially healthy for the year 2024, which will be a year of economic recession, according to an article by Folha de S. Paulo (2023). Martin Castellano, chief researcher for Latin America at the IIF (Institute of International Finance), points out that a painful economic recession seems inevitable, regardless of the prevailing policies.

Thus, budget planning needs to be calculated with all possibilities of deflation so that the parent company can visualize the true difficulties of the region when delegating result and sales goals. Based on this scenario, Table 1 was summarized to synthesize such information.

Table 1 - Action Plan

Plan Strategy	Description
What	The Impact of Exchange Rate Variation in Argentina and the Difficulty of Financial Planning for Future Periods.
Who	Controllers
Where	Companies headquartered in Argentina.
When	Monthly, with each forecast made and sent to the headquarters in Germany.
Why	To mitigate the impact on financial planning, as it directly affects product margins, the final EBIT of the P&L, and especially the goals and challenges that the parent company needs to pass on to each region.
How	Currently, a temporary solution found to minimize large variations is to report the results only in the currency where the parent company is located, that is, in euros. This way, with each currency fluctuation, the euros remain intact, and the Argentine pesos increase to meet the target.

Source: Own authors.

4. CONCLUSIONS

The purpose of this study is to analyze the impacts of Argentina's currency fluctuations on the financial planning of companies in the country and how they can mitigate these impacts to improve sector performance. To this end, a European company operating in Argentina and needing to convert its financial data to euros monthly was used as a case study.

In the year 2023, Argentina faced a significant economic recession, impacting all sales targets and results in line with the country's reality. The controller, responsible for forecasting and realistically planning results, had to delve into the country's economic scenario to anticipate the post-presidential election developments. For example, the possibility of adopting a new currency or dollarization was considered.

After analyzing the mentioned topics, the temporary solution proposed is the full conversion of results to the currency of the company's headquarters, namely euros. This approach aims to protect the results, although it requires additional efforts in Argentine pesos to achieve the targets. In early 2024, a decrease in the population's purchasing power is already observed, requiring a complete review of the planning for the first quarter to adapt to the new reality.

In one of his statements, Milei maintains the perspective that, within a period of up to two years, inflation in the country will be under control. In this context, the role of the controller will be directed towards ensuring that results and sales proceed as planned, setting aside anticipation of the economic scenario to draw conclusions together with economists. In other words, the company's rise will occur during this period, while we witness, until then, a panorama of adaptation and economic resilience.

Given that this study was conducted during the presidential election period concurrently with currency devaluation, one of the difficulties encountered was obtaining data and in-depth analysis on the subject. A suggestion for future research would be to address the possible trajectory of the Argentine economy over the next two years, especially regarding currency stabilization, and compare it with the results observed in countries that have adopted dollarization in Latin America.

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