Argentine Government Seeks Financial 'Armor' for Its Creditors

by Gonzalo Huertas

Over the recent weeks, the International Monetary Fund (IMF) has been "monitoring" a package of financial "armor" for Argentina, in order that Argentina can meet its financial obligations this year and next, "without difficulty." The IMF's decision to step in with a bailout for Argentina, is due to the fact that Argentina owns 25% of "emerging market" bonds circulating worldwide (along with such countries as Russia, Brazil, and Mexico), and, therefore, an Argentine default on its debt could potentially cause a bigger international financial crisis than that provoked by the Russian default of 1998.

In the face of this reality, on Nov. 14, the credit rating agency Standard & Poor's (S&P) lowered its country-risk rating on Argentine sovereign debt to BB−. A week later, Moody's decided to do the same, reclassifying its rating for Argentina's debt from "stable" to "negative."

S&P explained in a press release that its decision was "based on the view that the economic environment in Argentina has worsened, and could continue to affect local demand, production levels, and the levels and terms of payments." Likewise, another release from S&P pointed out that the reclassification of Argentine debts reflected "a weakening of the public finances, given the growing level of indebtedness and a high dependency on foreign capital."

Enter the IMF and the U.S. Treasury

So, on Nov. 27, an IMF advance team arrived in Buenos Aires to put Argentina's accounts "in order." Two days later, the assistant director of the IMF's Western Hemisphere Department, Teresa Ter-Minassian, joined them. After reviewing the figures, the IMF demanded that the government come up with a new fiscal pact with the provinces, a greater cut in public expenditures, approval of a 2001 budget with even greater indebtedness (see **Tables 1** and **2**), deregulation of social projects, elimination of the trade union-run health insurance programs, the elimination of the remaining state social security system, and an increase in the retirement age for women to 65 years.

Then, on Dec. 4, U.S. Assistant Secretary of Treasury for International Affairs Timothy Geithner, accompanied by two economists from the Treasury Department, paid an unusual visit to Buenos Aires, in order to view the Argentine economic situation *in situ*. This was the same Geithner who headed the U.S. mission to Asia, during the financial crisis which devastated that region of the world in 1997.

Many local and foreign economic analysts have been blaming the Argentine economic crisis on the fragile political situation in which the country has found itself, since the leader of the Frepaso party, Carlos "Chacho" Alvarez, resigned as Argentine Vice President, thereby shattering the "Alianza" political coalition between the Radical Party and the Frepaso, which governed the country.

The cause of Argentina's financial and economic crisis, however, can be found in the state of exhaustion to which the domestic productive sectors and the middle class have been reduced. These sectors had been the greatest source of tax revenue in past years. This situation, in turn, is the result of the implementation in recent years of each and every one of the destructive economic prescriptions demanded by the IMF. In sum, Argentina is a classic example of another IMF "success story": The country and its economy have been wrecked.

As economist Daniel Muchnik stated, what has been called "financial armor" for Argentina, is nothing but a "financial guarantee," so that Argentina can continue refinancing its foreign debt, "but at higher interest rates than those which it had to pay in the past, precisely because of its current financing difficulties."

Media sources are asserting that the financial "armor" to be provided, will be in the range of $30 billion. When negotiations began, a bailout package of $15-20 billion was cited, but even the $30 billion, in reality, will be insufficient, if the grave state of Argentina's economy is taken into account.

Short-Term Debt

The truth of the matter is that Argentina holds a large amount of short-term debt, totalling $20.034 billion as of September, and it does not have the means domestically to meet those payments, due to the fall in tax revenue.

According to statistics published by the Economics Ministry, of that short-term debt, $5.917 billion is held by the non-financial private sector, $12.984 billion by the private financial sector (that is, banks and other financial institutions), and $1.133 billion by the public sector. In addition, the Argentine government has issued Treasury bills, called *letes,* which come due every 90-180 days on average. These total another $5.6 billion, as of this writing.

Thus, next year, Argentina faces a total $36.356 billion in

TABLE 1
Argentina: Foreign Debt, Official and De Facto

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000*
Official										
1. Public	52.7	50.7	53.6	61.3	67.0	73.6	74.8	82.4	84.9	85.8
2. Private	5.8	8.6	14.3	17.8	22.3	25.9	35.4	56.9	59.7	58.6
3. Total (1+2)**	58.6	59.3	67.9	79.1	89.3	99.5	110.2	139.3	144.6	144.4
4. Missing Private***	2.7	3.5	4.3	6.6	9.6	10.3	14.5	1.2	0	0
5. Revised Total (3+4)	61.3	62.8	72.2	85.7	98.9	109.8	124.7	140.5	144.6	144.5
De Facto										
6. Gov't Dollar Bonds	—	—	—	11.1	14.5	14.6	15.0	14.8	21.3	23.2
7. Gov't Peso Bonds****	—	—	—	2.8	2.0	2.7	3.2	2.6	2.1	1.5
8. Gov't Short-Term Bonds (Letes)	—	—	—	—	—	—	—	3.3	4.2	4.7
9. Private Domestic Debt	9.1	15.4	20.9	27.4	28.5	31.7	38.0	42.4	40.9	39.1
10. Total (6+7+8+9)	9.1	15.4	20.9	41.3	45.0	49.0	56.2	63.1	68.4	68.5
Grand Total (5+10)	70.4	78.2	93.2	126.9	143.9	158.8	180.9	203.5	213.0	213.0

*2000, through 2nd quarter.
**Official, through 1998.
***Official revision of the private debt, conducted in early 2000, found these "missing" amounts from earlier years.
****Only those held by foreigners (about one-third of the total).
Sources: Economics Ministry, Indec.

debts coming due: a) $2.500 billion in *letes* which come due in 2001; b) $23.917 billion on its public foreign debt ($14.872 billion in amortization and $9.045 billion in interest); and c) $9.939 billion in private sector debt.

At this rate, the financial "armor" discussed for Argentina is looking more like a sieve every day.

The decision of former President Carlos Menem and his Economics Minister, Domingo Cavallo, to continue implementing IMF dictates at all cost, succeeded in turning industrial Argentina, into a post-industrial nation. And now that grandmother's jewels have all been sold, they are ready to sell grandmother herself.

Between the 1991 launching of Cavallo's "convertibility" policy (that is, a fixed one-to-one parity between the dollar and the peso) and the end of 1999, Argentina's official foreign debt rose a whopping 136%, going from $61.335 billion to $144.585 billion.

However, Argentina's real foreign debt is much larger. According to *EIR*'s calculations, based on official figures, the real Argentine foreign debt went from $70.417 billion in 1991, to $212.959 billion in 1999. In other words, the debt grew 202% over nine years (**Figure 1**)!

In this same period, the domestic foreign debt with the banks—which, by virtue of being dollar-denominated, constitutes *de facto* foreign debt—showed a 350% increase, going from $9.082 billion in 1991, to $40.858 billion in 1999.

This is the main reason behind the dollar hemorrhage that Argentina is undergoing, in order to meet its so-called "financial obligations," postponing all other economic policies that might use the country's scarce resources for purposes more in the interest of the general welfare of the nation.

The results are already evident.

The Economic Crisis

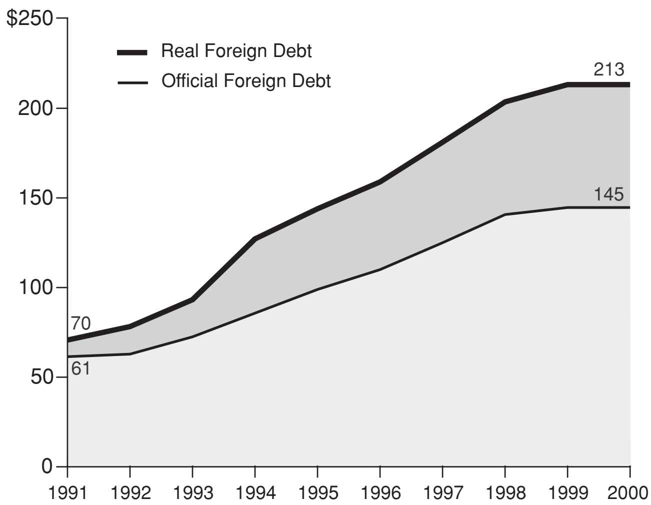
Although one cannot produce exact figures on the damage caused to Argentina's physical economy by the Convertibility Plan, one can get a good estimate just by looking at the massive wave of bankruptcies of companies, large and small

TABLE 2
Argentina: Real Foreign Debt

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000*
1. Public Official	52.7	50.7	53.6	61.3	67.0	73.6	74.8	82.4	84.9	85.8
2. Private Official	8.6	12.1	18.6	24.4	31.9	36.2	49.9	58.1	59.7	58.6
3. Public De Facto	0	0	0	13.9	16.4	17.3	18.2	20.7	27.6	29.4
4. Private De Facto	9.1	15.4	20.9	27.4	28.5	31.7	38.0	42.4	40.9	39.1
Real Foreign Debt (1+2+3+4)	70.4	78.2	93.2	126.9	143.9	158.8	180.9	203.5	213.0	213.0

*2000, through 2nd quarter.
Sources: Economics Ministry, Indec.

FIGURE 1
Argentina: Real Versus Official Foreign Debt
(Billions $)



Sources: Argentine Economics Ministry; Indec.

alike; the blocks-long lines of unemployed fighting for jobs at wages which do not go much beyond $400 a month; the thousands of agricultural establishments with the sign, "Closed"; and the growing flood of emigrants, seeking the prosperity abroad that has disappeared at home.

According to the Economics Ministry, the economy—as measured in Gross National Product monetary terms, which are a poor reflection of economic reality—fell 0.6%. Hardest hit were: fishing, –13.9%; construction, –10.5%; and agriculture, ranching, hunting, and forestry, –3.5%.

One of the key sectors that had managed to maintain a certain growth in recent years, the construction industry, has begun to collapse. In October of this year, construction registered a decline of 2.2% against October 1999. Also during October, cement shipments declined by 15% with respect to the same month in 1999. The Monthly Industrial Index (EMI) revealed that industrial production in September fell 1.4%, in relation to September 1999.

The labor sector continued to worsen. In November alone, according to the latest monthly report from the consulting agency Tendencias Económicas, layoffs increased 373% with respect to November 1999, and increased 128% over those which occurred the month before (October 2000). Layoffs in October 2000, meanwhile, were up 26.5% over October 1999. The areas hardest hit by the layoffs were primarily the paper and auto industries. According to private estimates, official unemployment (which does not include the underemployed) surpasses 15% of the economically active population, as compared to 13.8% the year before.

All of this led to a serious decline in tax revenues, the figures of which no longer circulate publicly. With the goal of increasing those revenues, the government has been considering authorizing the banks to collect and monitor private companies' required payments into pension funds, social benefits, health care, etc. And, they are trying to privatize the collection of some taxes now collected by the Federal Administration of Public Revenue (AFIP).

The already financially desperate situation of the agricultural sector has been worsened by "natural" catastrophes, the result of the fact that governments over recent years have failed to carry out water control projects, and the countryside has been flooded. By late November, incessant rainfall had inundated 2 million hectares (equivalent to 100 times the size of the Federal Capital), located in the provinces of Córdoba, Santa Fé, La Pampa, and Buenos Aires. Economic losses so far are estimated at more than $1 billion. Rural leaders have urged the government to create a $1 billion "crisis fund" to enable them to deal with the current situation, but the government has refused to respond.

In view of this picture, there can be little doubt that, sooner or later, Argentina will be unable to meet the service costs on its foreign debt.

Lowering Wages To Cover the Fiscal Deficit

The crisis has already led the Alianza government to change the fiscal goals agreed upon with the IMF, three times: At the beginning of the year, it said that the year's fiscal deficit would be $4.1 billion; in mid-year, the ceiling was set at $5.3 billion; now, the government maintains that the deficit could go as high as $7 billion.

Economist Muchnik explains that the increase in the fiscal deficit is due to the fact that "interest on the foreign debt keeps rising, and with it, the transfer of capital abroad. Consumption continues to be depressed because of unemployment and loss of buying power. To this can be added the cutback in the size of pension funds for retirees in the future. Finally, after the rise in the price of oil, exports are stagnant and tax collection continues to be paralyzed by the recession. Also, the chain of payments is hurt by the financial cost."

Finance Minister Daniel Marx announced in a video-conference before a Brazilian audience recently, that the only way for Argentina to deal with its debts, is to reduce wages. However, cutting wages is going to cost the government dearly on the political front. Last month, 99% of Argentina's workers struck against the country's economic model, called out by the "rebel" trade union federation CGT, led by Hugo Moyano.

Not only the workers are angry, however. Addressing the Argentine economic recession, the president of the Argentine Industrial Union, Osvaldo Rial, told *Página 12* that, since 1991, Argentina "has been subjected to globalization; has been the only country to allow itself to be violated in the name of globalization. No other country gives away its markets; no other country imports any old garbage, while leaving Argentines on the streets."