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Currency Rates

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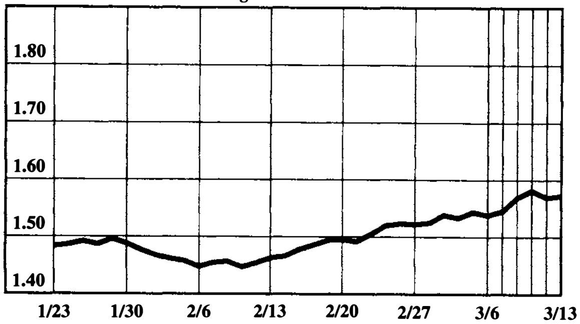
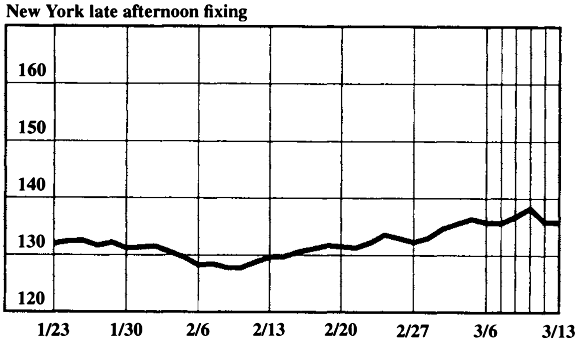


The dollar in yen
New York late afternoon fixing



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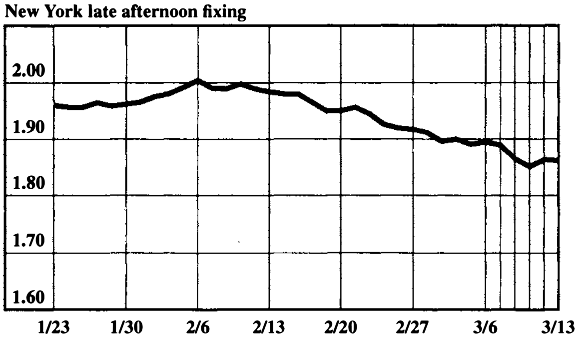

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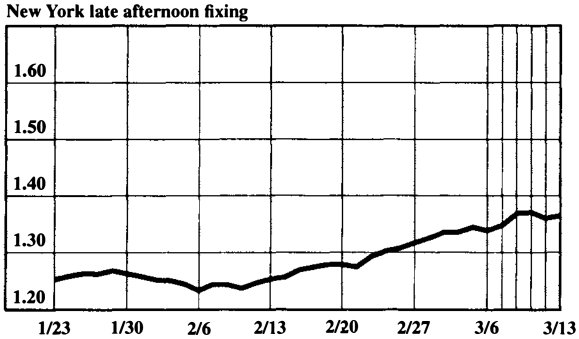

Argentine economy wracked by chaos

by Cynthia Rush

As has become his custom, Argentine Finance Minister Domingo Cavallo went on national television on March 8 to give a detailed explanation of the country's economic performance and to promise that by April, he would have all the books balanced and everything "in order." The exchange rate would be stabilized, he said, and state-sector employment reduced dramatically through a harsh program of "administrative rationalization." The Harvard-trained minister predicted that by May, the government would be in a position to begin the process of "immediate economic reactivation."

Cavallo's report has little to do with the reality of the Argentine economy, which is plunging deeper into depression and isn't about to be "stabilized" by more draconian austerity. Moreover, the nation is plagued by strikes, corruption scandals, social unrest, and rumors of President Carlos Menem's imminent resignation. The minister's predictions are tied to the government's efforts to negotiate a new $1 billion standby agreement with the International Monetary Fund (IMF), as well as with efforts to portray a picture of stability in preparation for next September's congressional elections in which the Peronists generally, and Menem's faction in particular, are expected to lose badly.

In February, Argentina became ineligible to receive the last $240 million tranche of a standby agreement signed in 1989, when it failed to meet the IMF's fiscal and monetary goals. To qualify for a new loan, it must show a $5 billion trade surplus and a $4 billion equivalent primary budget surplus in 1991; if the government meets these goals, it will receive $700 million this year and the balance of $300 million in 1992.

In a March 8 press conference with Central Bank president Roque Fernández, the head of the IMF's negotiating team, Armando Linde, told reporters in Buenos Aires that the IMF would "support the Argentine economic plan if recently announced measures to lower inflation, improve the balance of payments, and achieve stability, were complied with." Linde emphasized that agreements have already been reached on reducing tariff barriers to imports and "opening up the economy." The IMF official explained that there are "two pillars" to the Menem government's program: privatization of state companies, and continued monthly interest payments on the foreign debt. Underscoring the IMF's demand for even harsher austerity, Linde said that "the fiscal question is the

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centerpiece of any financial program."

Citibank president John Reed, who was in Buenos Aires during the first week of March, made the latter point more bluntly: If Argentina doesn't eliminate its fiscal deficit, it can't go to the markets to request loans, he told the daily *Clarín*. "Only when the President controls the deficit, will he control the economy. And that's not happening now," the U.S. banker said. Reed's unfavorable remarks about the government's program bear out reports that Citibank opposes Cavallo, and prefers instead someone like orthodox monetarist Roberto Alemann to replace him. Cavallo was miffed enough at Reed's ultimatums that he even threatened him with suspending payments on the foreign debt.

What 'recovery'?

Cavallo's predictions of "recovery" are belied by the government's own letter of intent being prepared for the IMF. One of its points states that there is no expectation of an improved level of economic activity, and Central Bank president Fernández admits that GNP is expected to grow only "a little bit." For three years in a row, Argentine industrial production has dropped.

Privatizations, the cornerstone of Menem's economic program, are also in trouble. The privatization of the Entel phone company and the state airline Aerolíneas Argentinas were supposed to have been the government's two big success stories. But the phone deal has bogged down after two international consortia failed to meet deadlines to pay the cash they had bid for the company. Rates have risen 300% since the privatization, enraging citizens; and the Aerolíneas deal is in such a state of financial disarray that no one seems to know what its status is.

Cavallo admitted on March 1 that the economic opening and reduction of tariff barriers, scheduled for implementation on April 1, will be used as a means of "twisting businessmen's arms" and forcing them to lower prices. Faced with rising inflation, wage demands, high taxes and interest rates, as well as plummeting consumption, the private sector's Industrialists Union (UIA) recently sent Cavallo a document entitled "Industrial Emergency," urging him to postpone or alter the planned tariff reduction program, scheduled to begin April 1, which it correctly fears will devastate industry. Cavallo reportedly didn't even look at the document.

The finance minister warns he will take drastic monetary and fiscal measures, no matter who dislikes them. On Feb. 27-28, when local branches of foreign banks and some leading multinationals placed huge orders for U.S. dollars on the currency market, setting off a run, Cavallo charged that these groups were trying to remove him from office through an "economic coup." He ordered the Central Bank to sell close to $300 million, over 10% of its liquid reserves, and immediately imposed a five-point increase in the bank reserve ratio, forcing buyers to sell their dollars on March 4 at a substantial loss.

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