Argentine debt is waiting to explode

by Gerardo Terán Canal

On Oct. 14, the day on which President Carlos Menem was unexpectedly admitted to a Buenos Aires hospital for emergency surgery as he was on his way to the airport, this writer was riding in a taxi when the news came over the car radio. I noticed that the driver became pale upon hearing the radio report and suddenly became so disoriented that he started driving in the opposite direction from where I wanted to go. I tried to calm him down, but failing to do so, I finally had to get out and look for another taxi.

When I told the second taxi driver what had happened, he explained to me, "Che, that poor guy probably has a dollar debt of several thousand dollars, and he's terrified that if Menem dies or leaves office for any reason, that will mean the return of hyperinflation that will make his debt unpayable."

Referring to the recent victory of Menem's Justicialist Party in the Oct. 3 congressional elections, the taxi driver added that "that's why even though people might hate Menem, they voted for him anyway, because everyone holds debts in dollars and Menem's continuation in office means continued stability. It's not that people *like* that stability, but they are *blackmailed* by it."

That conversation is a faithful reflection of what's happened with the Menem government's much-lauded Convertibility Plan, implemented in March 1991 at the urging of Finance Minister Domingo Cavallo. Based on a one-to-one parity of the peso to the dollar, the plan has achieved an apparent stability and growth only through an increase in the indebtedness of the entire nation.

The multiplication of the debt

Take the case of Argentina's public foreign and domestic debt. In 1991, that amounted to $55.8 billion, according to *El Cronista*. But by the end of 1993, it will have reached $71.2 billion, a growth of 27.5% despite the reductions obtained through the Brady Plan.

It's interesting to note that the model imposed on Ibero-American countries by the International Monetary Fund and the banking community had two variants through which they perpetuated the myth that the new phase of their free-trade economic program is based on investment and growth.

On the one hand, in the case of Argentina, the Brady Plan reduced the capital of the private banks' debt from $32.6 billion to $26.1 billion—a reduction of $6.5 billion. This was celebrated here as the achievement of the century.

But what was not explained is that the foreign debt owed to multilateral lending agencies such as the International Monetary Fund and the World Bank increased from $16.5 billion in 1991 to $20.9 billion today. These were credits granted to finance the restructuring of the economy and the financial sector demanded by the Brady Plan, including compliance with fiscal guidelines, privatization of state sector companies, and total financial deregulation.

Once the economy was "cleansed" in this way, it was opened up to foreign "investment" which, as the numbers show, is simply a new form of indebtedness. It should be recalled that after the Federal Reserve placed Citibank in receivership in 1991, one of the reforms adopted was that that bank would no longer make loans directly but would invest in the bond markets. In Argentina, these so-called investments have caused the government's public debt issued in dollars to increase from $4.9 billion in 1991 to $14.1 billion in 1993—an increase of $9.2 billion, or 186%. Moreover, the public debt issued in pesos increased from $1.2 billion to $8.4 billion over the same time period. This is an increase of $8.4 billion, or 720%.

The private internal debt, or what the banks have lent domestically, amounts to $32.3 billion, 50% of which, according to *El Cronista*, has been directed to "private citizens, consumers, or marketing companies through overdrafts, private loans, discounted instruments, securities, or property mortgages." Of this amount, $18.5 billion are debts in dollars and the rest are in pesos. In the event of a devaluation, the dollar debt would become unpayable.

If we assume that Argentina's currency is the peso and not the dollar, and that the latter is the currency of the United States issued by the Federal Reserve, we can conclude that the true foreign debt is the sum total of the dollar-denominated debt. Thus, adding to the $61.7 billion in foreign and internal public debt in dollars, the $18.5 billion of internal private debt in dollars, and an additional $16 billion in private foreign debt, the total amount of Argentina's debt comes to $96.1 billion. That translates into a per capita debt of approximately $3,000, the highest in Ibero-America. Considering the interest being paid on both dollar and peso-denominated bonds, plus those paid on short-term private internal debt, the big question is, how long can the economy sustain this debt service?

Physical economy in crisis

Despite the fact that Gross National Product reportedly grew by 8% for 1992, as commentator Carlos Abalo noted in a column in *El Cronista* on Nov. 1, "the peso's revaluation didn't substantially improve production as Finance Minister Cavallo has recognized. . . . Compared to other industrialized and emerging countries, Argentine production shows a large component of financial services. . . . We have to distinguish between the quality of industry, the type of services and the role of the financial system. . . . When we look at Argentina's future from this standpoint and measure the comparative costs and potential for export, things don't look so simple."

Added to this perspective is the fact that the agricultural sector, the basis for Argentine exports, had to organize a tractorcade last July to call the government's attention to its crisis. Industrial sectors, such as textiles, have practically disappeared due to the so-called "industrial reconversion" or restructuring policy included in Cavallo's economic model. Capital goods and machine-tool industries are operating at 60% of installed capacity. Between December 1992 and today, sales in the interior provinces have dropped by 50%. There are thousands of bankruptcies of small and medium-sized provincial companies who can't survive the prohibitively high cost of credit and utility rates.

Alarming trade deficit

Most alarming is the trade deficit projected for 1993 which could be as high as $3.2 billion, up from $2.5 billion in 1992; the projected balance of payments deficit for 1994 is $10 billion. Given that income from privatizations has essentially dried up, as Carlos Abalo correctly noted, "what happens with incoming capital will determine the continuity of the economic model." One of Argentina's most prestigious economic analysts, Miguel Angel Broda, who writes for *El Economista,* confirmed that there won't be any problem with these incoming foreign "investments" unless "a) there's a crash of the New York stock market which would change the international financial panorama or, b) NAFTA [the North American Free Trade Agreement] is not approved [in the U.S. Congress] and Mexico plunges into crisis and drags the rest of Latin America with it." Both of these possibilities are quite feasible.

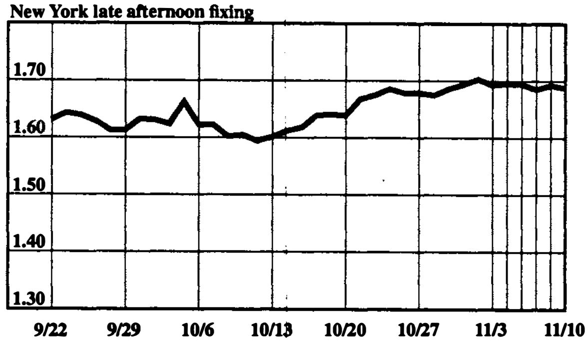
Finally, Daniel Naszewsky, *El Cronista's* economics editor, commented on Nov. 1 that "Argentina is showing an imbalance in its external sector, and it's more obvious every day that if foreign capital doesn't continue to enter the country to compensate for the current account deficit, the future won't be hyperinflationary as in the past, but recessionary." If the solution is more investments of the type mentioned above, then Argentina's only solution will be to continue increasing its public and private debt by issuing bonds that will then be bought up by foreign usurers such as George Soros.

The other option is that discussed in the *Washington Post* and elsewhere, which is that Argentina will increasingly become—this is already the case—a port for the entry and laundering of drug monies. The real question is, who will pay for the "profitability" of this monstrous debt and how much longer can the physical economy and the Argentine people sustain this?

Currency Rates

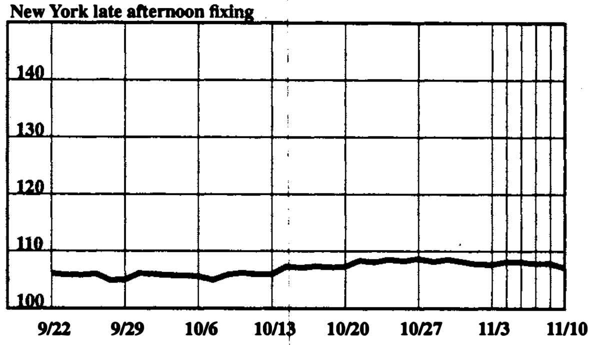
The dollar in deutschemarks

New York late afternoon fixing



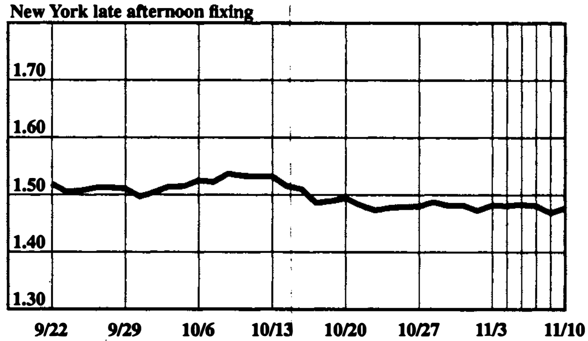
The dollar in yen

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing