Argentina Dies With Its IMF 'Armor' On

by Cynthia R. Rush

The $39.7 billion bailout package for Argentina, announced by the International Monetary Fund (IMF) on Dec. 18, 2000, was supposed to be the turning point for this crisis-wracked country. The aid package, only $12 billion of which comes from the Fund directly, would boost "investor confidence," bring down interest rates, lower the country risk assessment, and set the nation on the road to recovery—or so the story went.

Two months later, Ibero-America's largest borrower is sinking, along with its mythical "financial armor," as the IMF-led bailout is called. The fragility of the economy is such, that Germany's *Der Spiegel* warned in its Feb. 1 edition, that, bailout package notwithstanding, Argentina could become the "detonator for the next international financial crisis." When Turkey's financial and debt crisis exploded in mid-February, resulting in the devaluation of the Turkish lira, it immediately unleashed fears that Argentina would be the next to blow. Arguing that an IMF bailout of Turkey hadn't prevented another crisis there, investors started dumping Argentine debt paper and stocks. In response, the government has had to sharply increase the yields on new bonds issued.

After having dropped briefly following the bailout announcement, the "country risk" rate, which is measured as the spread between U.S. Treasury notes and Argentine bonds, rose sharply, and is now back at the same 8% that existed prior to Dec. 18. In the second half of February, the situation has rapidly worsened, leading three Wall Street investment banks to downgrade Argentina's debt, and recommend that their clients sell off their bonds. Plagued by internal infighting, the government of President Fernando De la Rúa is desperate, trying to reassure investors and creditors that the austerity conditionalities attached to the bailout package, will be applied without fail.

'Defend the General Welfare'

Reality says otherwise. More than a decade of IMF-dictated austerity in Argentina has wrought unprecedented economic and human devastation. Real unemployment tops 18%, and the fastest-growing category of the population, in a country which once had the highest living standards in Ibero-America, is now the "new poor." These are formerly middle-class families, whose monthly income was once above the average for Ibero-America, but now hovers around $500, barely enough to rent a one-room apartment in Greater Buenos Aires. Living standards in the latter region have generally been higher than the rest of the country, but now the "new poor" constitute 28.7% of its 14 million population. In this situation, the "social peace" necessary to attract foreign investors, can hardly be guaranteed.

As the international financial system disintegrates, there can be no economic recovery built in Argentina by imposing even deeper austerity on top of existing economic wreckage and human despair. Popular resistance is so great that De la Rúa has had to ram through IMF policies by decree—as many as 31 of them—because Congress won't pass them otherwise.

Economic statistics released for January and February belie the government's claim that the domestic situation has "shifted" for the better since the announced bailout. Industrial production dropped by 4.2% in January 2001, compared to January 2000, and dropped by 6.4% compared to December. The decline in auto production, one of the country's most important economic sectors, was a whopping 37%. January's fiscal deficit rose 75% above the January 2000 figure, and there are now fears that the deficit for the first quarter could go at least $300 million above the $2.1 billion promised the IMF. Supermarket sales dropped by 1.8% in January, compared to the same month last year, and are expected to drop another 1% in February. In February, purchases of durable goods plunged to their lowest level ever, while consumer confidence and tax revenues continued to decline.

As the daily *Clarín*'s respected economist Daniel Muchnik put it in his Feb. 4 column, "there is no concrete evidence" to back up the goverment's claim of an improvement since December. Consultants' optimistic reports on the economy "appear to come from another planet," Muchnick said, adding that the government's job should be to "defend the general welfare" instead of putting out propaganda which "does not show the real state of the economy." Martín Redrado of the Fundación Capital think-tank bluntly stated that the "positive effects of the financial armor, which only guaranteed [$20 billion in] financing needs, were oversold," warning that a new crisis would ensue should the government fail to implement the austerity conditionalities attached to the bailout.

Instability within the ruling Alianza coalition is aggravating the crisis. A money-laundering scandal implicating Central Bank President Pedro Pou, and calls for his removal by legislators close to the São Paulo Forum-linked Frepaso wing of the government, have rattled Wall Street. In this context, there are renewed rumors that Finance Minister José Luis Machinea might resign, and be replaced by global speculator George Soros's ally, former Finance Minister Domingo Cavallo. On Feb. 27, citing the government's inability to control the fiscal deficit, one of Cavallo's former underlings, Lehman Brothers' executive Joaquín Cottani, provoked an uproar when he suggested that now might be the time to dump the currency board system in effect since 1991, and effectively devalue by pegging the peso to a basket of currencies. This immediately set off jitters in neighboring markets.