THE RECENT CRISIS OF THE ARGENTINE ECONOMY: SOME ELEMENTS AND BACKGROUND

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Introduction

The Argentine crisis could be examined as one more crisis of the developing countries – admittedly a star pupil that had received praise from many sides – hit by the vagaries of the international financial markets and/or its own policy mistakes. And to a great extent that is a line that could provide some illumination.

But it could even be more interesting to examine the peculiarities of the Argentine experience – always in that general context – which did add to the difficulties other economies have faced and that have made it such an intractable case for normal medication. And not only those peculiarities and their consequences should better been pinned down. But also an attempt at understanding that they were not just a result of the extravagance of that far away people in one Southern end of the world should be made.

This paper is organized in the following way. In the first section a brief examination of some long-run trends in the Argentine economy is introduced. The next section is an attempt at a thorough examination of the performance of the Argentine economy in the 1990's and the development of some severe imbalances eventually leading to an unsustainable situation. The following one, tries to explain the interaction among the various imbalances also as intensified by the peculiarities of the Argentine economic-institutional setup. The final section, is a brief description of the major events over the first half of year 2002 and the unresolved problems that stand in the way of a recovery and return to some normal economic and political life in the country, if this is not too high an aspiration for the "people of the world that came to inhabit the Argentine land" (preface to the Argentine constitution).

The economic performance of Argentina; long and medium-run

As it is well known Argentina has been a case of extremely successful development beginning at some time in the third quarter of the XIXth. century. But that was not only the case of the pre-1930's period. As may be seen in the next table, but for the Depression years of the 1930's, Argentina continued to grow at quite a satisfactory rate up to the mid-1970's admittedly at a lower pace than some similar countries so that it started loosing positions in the world income per head leagues.[1]

The years of import-substituting industrialization, therefore, were much better than a somewhat distorted but prevalent picture both inside and outside Argentina try to depict.

The contrast with the last quarter century could not be more striking; while income per head increased by about two-thirds in the previous 1950-1974 quarter, in 1975-1999 the increase was practically nihil. That it coincided with the first and second attempts at "opening-up" of the economy – the first one under military rule in the late 1970's and the second one in the 1990's – should not make us rush to conclusions about the relative successes of ISI vis à "economic liberalization", but at least it helps setting the record straight.

ARGENTINA										
Rates of Growth-from peak to peak										
1870-1994										
(annual cumulative rate of growth of GDP in U$S - 1990 prices - at purchasing power parity exchange rates)										
1870-1890	*1890-1900*	*1900-1913*	*1913-1929*	*1929-1939*	*1939-1951*	*1951-1961*	*1961-1974*	*1974-1980*	*1980-1987*	*1987-1998*
5.8%	5.9%	6.4%	3.5%	1.4%	3.6%	3.3%	4.4%	1.4%	-0.1%	3.2%
Note: Estimates for GDP rate of growth beyond 1994 derived from national accounts in pesos at 1993 prices.										
Source: Maddison, A. "Monitoring the World Economy, 1820-1992"; OECD, 1995 and Rep. Argentina, Min.Economía, "Indicadores Económicos".										

Table 1

This last quarter of a century is not only characterized by stagnation but it was also a period of instability. As to instability in "real" terms the following table provides some information about the serious crises that took place in this latter period. Up to this era, the strongest crises in Argentine economic history had been the one in the

[1] Among 39 selected counties in the world – almost all those with high incomes per head – Argentina stood in the 10th place right before the First World War, in the 13th.place right after the Second World War and still in the 20th. place in 1974. At that time only Venezuela - an oil exporting country basking in the consequences of the first oil price shock - was ahead of Argentina among the developing countries. Source: Author's calculations on the basis of estimates provided by Maddison, A. "Monitoring the World Economy, 1880-1992"; Development Centre Studies; OECD; Paris, 1995.

1930's – a drop in GDP of around 14% - and that during the First World War (a drop of 20% in GDP).[2]

Table 2

ARGENTINA					
Five Major Crises					
1980-2001					
Period	*1980 Q III to 1982 Q II*	*1983 Q II to 1985 Q III*	*1987 Q III to 1990 Q I*	*1994 Q IV to 1995 Q III*	*1998 Q II to 2002 Q I*
Number of Quarters	7	9	10	3	14
Fall in GDP	-11.3%	-10.7%	-16.7%	-7.2%	-27.9%
Note: Figures for GDP are those at 1986 prices projected up to 2001 using rates of growth for the statistics at 1993 prices.					
Source: CEPAL, Oficina en Buenos Aires, "Indicadores Macroeconómicos", nov.2000 and Rep. Argentina, Min. Economía, "Indicadores Económicos", julio 2002.					

The various crises of the 1980's came pretty close to the 1930's record. But, of course, the most serious is the one Argentina is going through at this very moment, right over the turn of the century. But more about this last episode later.
As to "non-real" instability, enough to say that the rate of inflation went up from an average of 24 per cent per year in 1950-1974 to 95 per cent in the 1975-2000 period with a significant increase in variability. Of course the most dramatic years were those of almost hyperinflation at the end of the 1980's and beginning of the 1990's – three out of which two under the Menem government and not only one under the Alfonsín administration – when the monthly rate of growth of prices – as measured by the producer's price index (PPI) - reached 96 per cent over the second quarter of 1989 and again 73 and 15 per cent in the first quarters of 1990 and 1991.

Table 3

[2] Historians tell us that the 1890's crisis, when Argentina almost brought down the house of Baring's in London, involved a drop of 25% in GDP.

ARGENTINA		
The Hyperinflation era		
Price Indices		
(equivalent monthly rate of growth)		
	CPI	PPI
Period		
		(2)
----------------------	------------------------------	------------------------------
1986 Q I	3.1	0.7
Q II	4.4	3.4
Q III	7.6	7.1
Q IV	5.4	4.4
1987 Q I	7.4	6.7
Q II	5.2	4.5
Q III	11.8	13.5
Q IV	10.9	11.7
1988 Q I	11.4	13.9
Q II	17.0	21.3
Q III	21.4	20.6
Q IV	7.2	4.7
1989 Q I	11.8	11.3
Q II	72.2	96.1
Q III	64.8	50.9
Q IV	16.4	15.4
1990 Q I	78.2	73.2
Q II	13.0	7.8
Q III	13.9	9.9
Q IV	6.2	1.3
1991 Q I	14.9	15.1
Source: Oficina de CEPAL en Buenos Aires.		

Additionally, Argentina starting in the mid-1970's acquired a enormous external debt while in the early 1950's it had cleared almost any debt inherited from the pre-Second World War period on top of nationalizing all public utilities, so that there were no charges against the current account from this side.

As may be seen in the following table over the 1974-2000 period total external debt increased more than 19 times and it amounted now to more than half of Gross National Income (GNI) instead of only 10 per cent back in the mid-1970's. [3]

Table 4

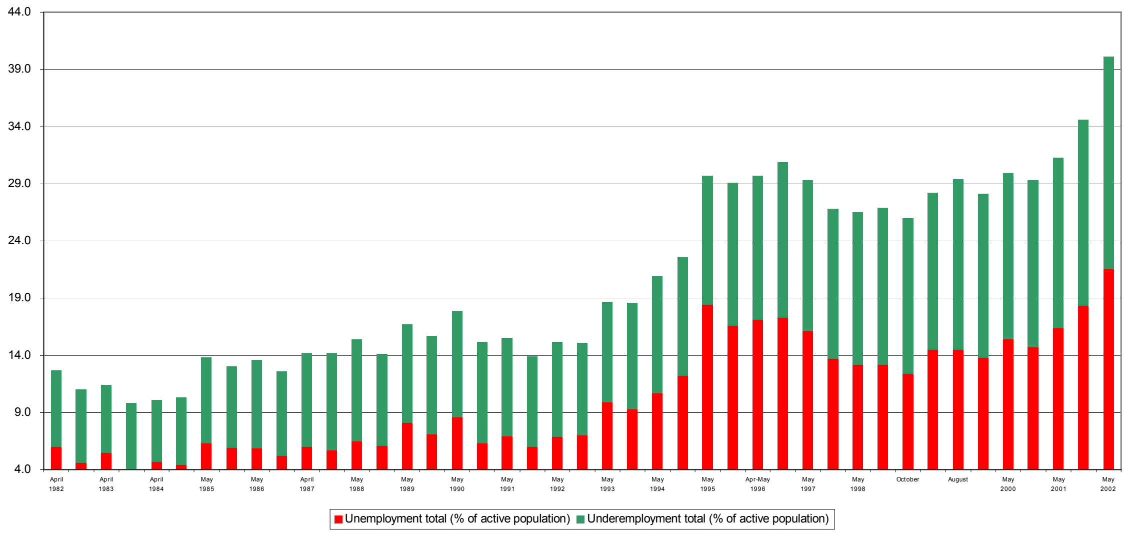
ARGENTINA			
External Debt and Debt Indicators			
	1974	*1990*	*2000*
Total debt stocks (EDT) (DOD, US$ million)	**7,628.2**	**62,232.2**	**146,172.0**
Total debt (EDT)/Exports of goods and services (XGS) (%)	..	374	381.0
Total debt (EDT)/GNI (%)	10.0		53.0
Debt service (TDS)/Exports of goods and services (XGS) (%)	...	37	71
Source: The World Bank "Global Development Finance" database (data beyond 2000 are contractual obligations only).			

Stagnation in real terms and both “real” and “financial” instability, therefore, have been the main elements of the Argentine economy in the last quarter of a century. Another force that became permanent in that period is a regressive income redistribution – the relation between the top and bottom deciles in the income pyramid shot up from 12.1 times in 1975 to 23.7 times in 1999 – and the presence of unemployment – both open and disguised – became a permanent feature of Argentine society (for a long time under the maligned ISI (Import Substituting Industrialization), unemployment hovered around 6% of the labour force, but it had become 12.4% of the labour force at the highest point of the cycle in the 1990’s and it stands at 21.5% nowadays associated with a rate of underemployment of little less than that).

Chart 1

[3] Back in 1950, debt and FDI service took up less than 1% of exports. See: Ministerio de Finanzas de la Nación, BCRA, "La evolución del balance de pagos de la Rep. Argentina"; Buenos Aires, 1952 (BT:Economía 2718).

ARGENTINA
Urban Unemployment and Underemployment Rates
1982-2002
(as a percentage of active population)



Such is the long to medium-run background to the present-day Argentine crisis. The revolt of sections of the population may be easily explained if one remembers that they had been used to a long period of growth, equality of incomes and full employment but have had to experience stagnation, instability, unemployment and rising inequality in the last quarter of a century.

The decade of the 1990's and the run-up to the present-day crisis

The last decade started in earnest with the implementation of a set of policy measures through which Argentina went further than almost any other country in the application of "market-friendly" reforms. There was trade and financial opening-up, privatization of almost anything that used to belong to the State, all around deregulation, etc.
It mught have been on account of those reforms that Argentina of the 1990's had widely been predicated as the success story of the decade among the now called "emerging markets". The country had become a showcase of the application of the internationally sanctioned policies. And besides being regarded in high esteem by businessmen and governments leaders all over the world, still in October 1998, the then President Menem was granted the honour of addressing the Annual Assembly of the International Monetary Fund and the World Bank, the only head of state being allowed to do so besides U.S. President Clinton. Transnational firms and investors

rushed to place their funds, shops and factories in Argentina soothed by the advice coming from widely respected economists and, more in general, from people in high places. And the IMF kept providing – in fact increasing - financial support to Argentina till only a few months before this last crisis.

But besides those that were applied in many other countries, in Argentina some specific and peculiar reforms were introduced that go to a great extent to explain our present day difficulties. The crisis of the Argentine economy – spilling over into the socio-political system – has quite a few common elements with the crises that other "emerging market" countries went through in the last decade, the XXIth. century crises as Mr. Camdessus somewhat prematurely labelled them. But it owes also quite a great deal to some specific elements included in the Argentine package.

The economic "reforms"

By the late 1980's, public opinion seems to have had enough of the frustrations of run-down public utilities, of chronic inflation turning into almost hyperinflation, bad quality and obsolescence of many consumption goods, all of which was ascribed to excessive government intervention in economic life. The dark sides of an early attempt at "liberalization" in the late 1970's and early 1980's were almost forgotten and the public at large wholeheartedly embraced a totally distorted and exaggerated version of a dogma that has gone down as the "Washington Consensus".

The main elements placing Argentina somewhat apart from other emerging countries efforts to pursue a liberalization process were:

a) the Currency Board system - starting in March 1991 and only rejected at the end of 2001 - under which the exchange rate with the United States dollar was fixed by law of Congress and the local currency – "pesos" - could be issued almost only against the exchange of foreign currencies, meaning that the Central Bank could not possibly finance government deficits neither provide support to commercial banks confronting a liquidity squeeze;

b) a full bi-monetary system, placing on an equal status "pesos" and foreign currency (mainly the U.S. dollar), the public being absolutely free to choose the currency of denomination of their operations;

c) a fractional reserve banking system even for foreign currency denominated deposits with fully liberalized interest rates and exemption of income tax for revenue on deposits;

d) the adoption – particularly after the “tequila” crisis - of so-called Basel plus regulations (with capital ratios higher than those prescribed by the Basel agreements) and full liberalization of banking market system entry, including privatization of almost all the provincial government banks and sale of a few of the medium to large institutions to foreign owners;

e) total liberalization of capital movements - both financial and direct investment - with not even registration requirements;

f) thorough privatization of State firms including all public utilities with almost no exception – from the airline company to hydroelectricity generation to the Post Office - under extremely weak or almost non existent regulatory systems with tariffs in some key services dollarized and indexed by the U.S. cost of living index (in fact most sales – particularly the early ones - were inspired more by pressures to somehow repay debt than guided by the idea of enhancing the efficiency of the economy);

g) elimination of almost any non-tariff barrier – but for the case of the motor vehicle regime and sugar imports – and reduction of tariffs from an average of 45% at the beginning of the 1990’s to something around 11% by 2000 as well as almost full liberalization of exchanges with Brazil and the rest of MERCOSUR countries;

h) adoption in 1994 of a mixed privatized pension system under which workers could choose to divert their contributions to private funds while all the existing and immediately prospective pensioners were still dependent on the State system;

i) unresolved conflict with the provinces as to the distribution of revenues that are not exclusive of the Federal government (only foreign trade taxes are the exclusive privilege of the Federal government under the constitution) as well as to sharing the costs of “social expenditure”, the bulk of education and health expenses having been transferred to the provinces;

j) a weak regulatory regime for competition that allowed an extraordinary concentration of market power and control of media;

k) a country highly urbanized almost devoid of an unemployment insurance system.

As we shall see, many of these specificities did have a great deal of influence on the performance of the Argentine economy, the various crises – including the present-day one – and the difficulties to sort out the consequences of the “tango” crisis of 2001-2002 (collapse in output, employment and incomes, hunger, extreme devaluation, bank deposits freeze, collapse of public finances, default on public and private debt, etc.).

The performance of the Argentine economy in the last decade and the "tango" crisis

In the following the performance of various aspects of the Argentine economy in the 1990's will be reviewed.

Lagging and unstable performance of output and investment

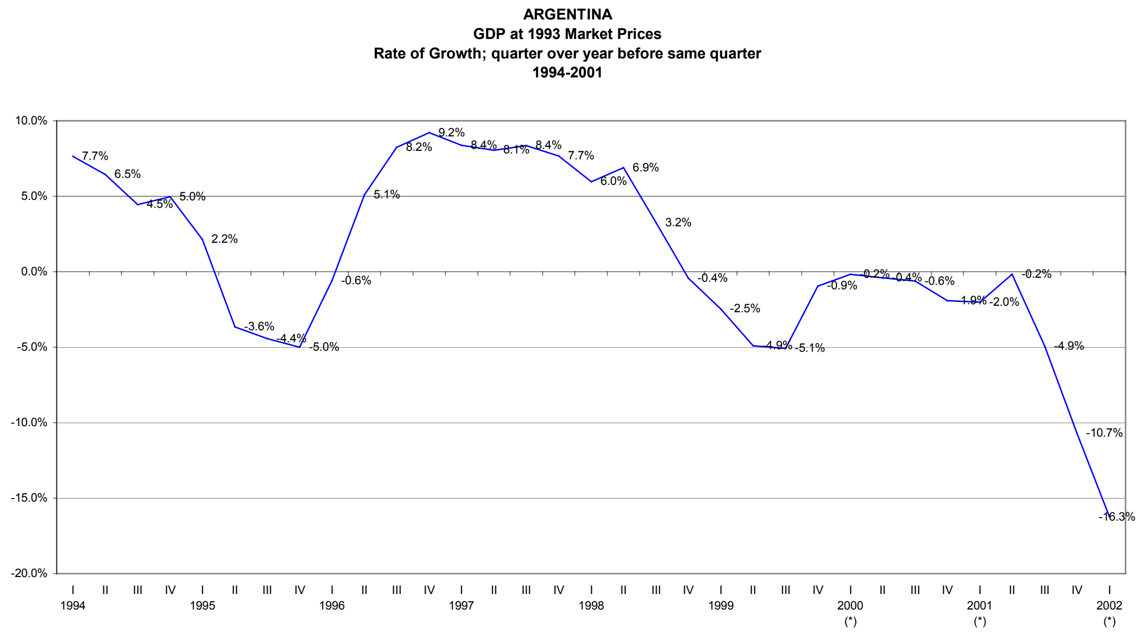
As may be gathered from Table 1, the rate of growth between 1987 and 1998 – from peak to peak of the cycle –was on the average 3.2 per cent.[4] That overall performance for the last 10 years – associated with the imposition of "Washington Consensus" reforms – was far from being exceptional even in the post-Second World War period (3.3% and 4.4% per year, respectively, for the 1950's and the "long" 1960's), even if better than that of the crisis years of the late 1970's and the lost decade of the 1980's. In fact the decade can be neatly divided between two phases of expansion interrupted briefly and mildly by the "tequila" crisis and ending in a recession, first protracted starting in 1998 and then developing into true crisis proportions by year 2001 (the rate of recovery and growth in the period between 1990 Q1 and 1994 Q4 was 9 per cent per year out of which 6 points were recovery from the earlier crisis and the rest true growth; that from 1995 Q3 and 1998 Q2 was 8.2 per cent per year).

This last recession in fact started in the second quarter of 1998 and by early 2002 had accumulated a decline of 28 per cent of GDP and it is lasting almost 4 years now (compare this crisis both in magnitude and length with the previous ones in the last twenty years; even the "tequila" crisis of 1995 was a minor event as it lasted only 3 quarters and the accumulated fall in GDP was 7.2%).

The following chart shows the quarterly behaviour of GDP beginning in 1994 when that first phase of recovery and expansion from the 1987-1990 crisis was culminating.

Chart 2

[4] The habit of using decades as basic time periods - and some propaganda coming from interested parties - has led to the utilization of the 1990-1999 period as a yardstick; but of course 1990 was a depression year so that any rate of growth using this year as a base would show artificially fast rates of growth. On the contrary using 1999 which was also a recession year instead of 1998 the closest peak year for the cycle confounds the picture.



If GDP has fallen, investment has just collapsed as may be gathered from the following two charts, that refer to the rate of investment relative to GDP and a building activity index.

Chart 3

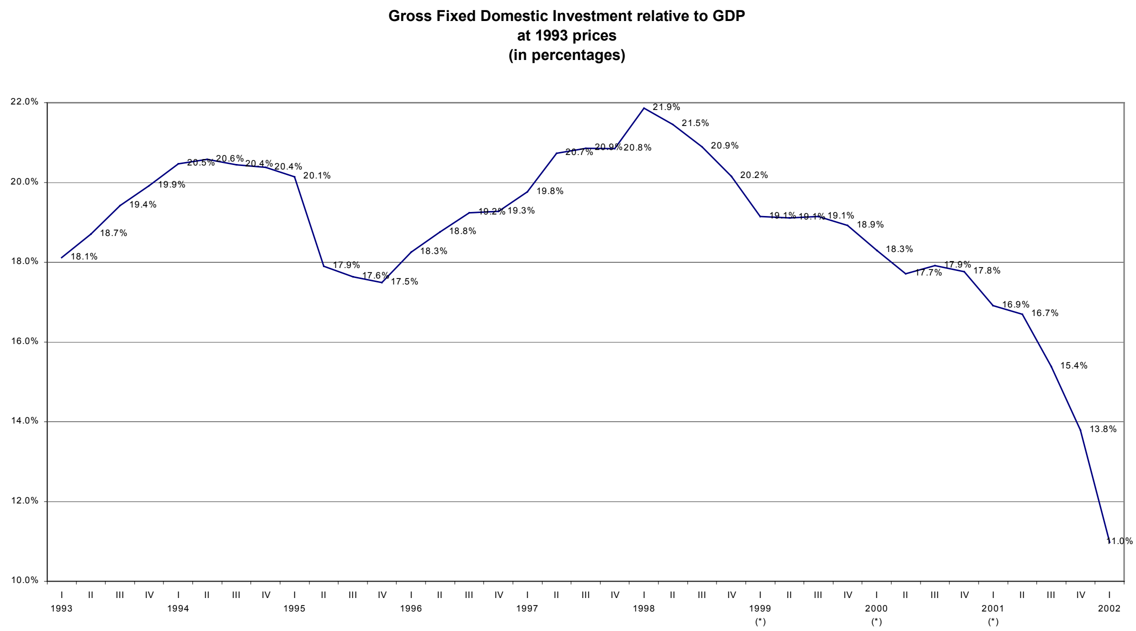
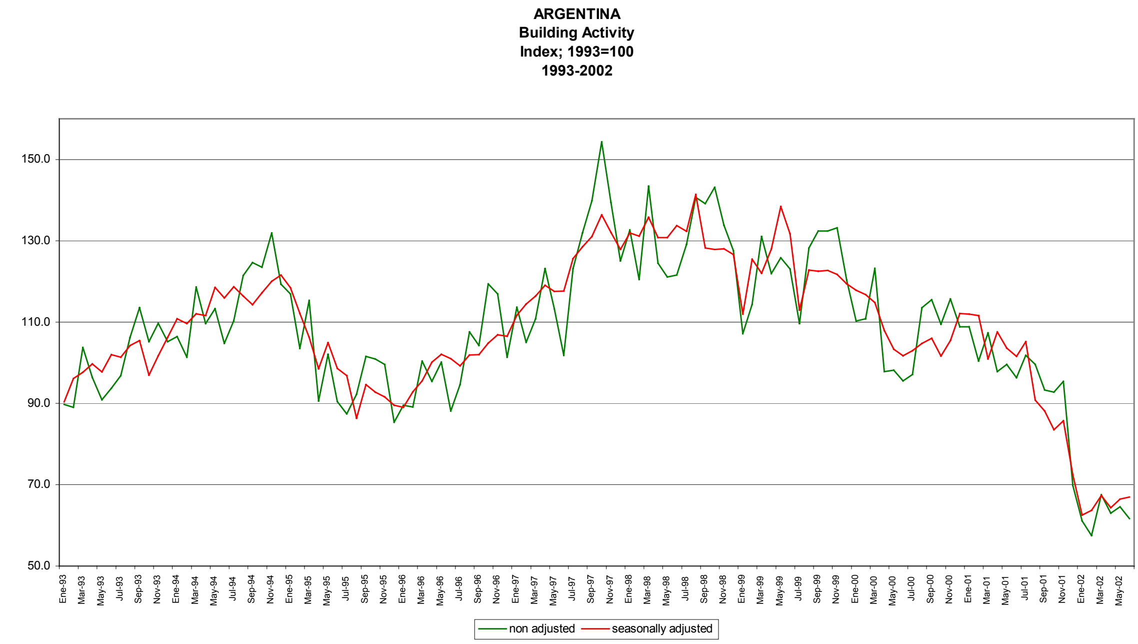


Chart 4



Manufacturing output in December 2001 – and June 2002 - stood 25 per cent below the level for June 1998 and, for instance, sales in supermarkets that had kept growing – in constant prices – up to September 2000 had fallen 18 per cent below that level by the end of 2001 and 30 per cent by May 2002.

Chart 5

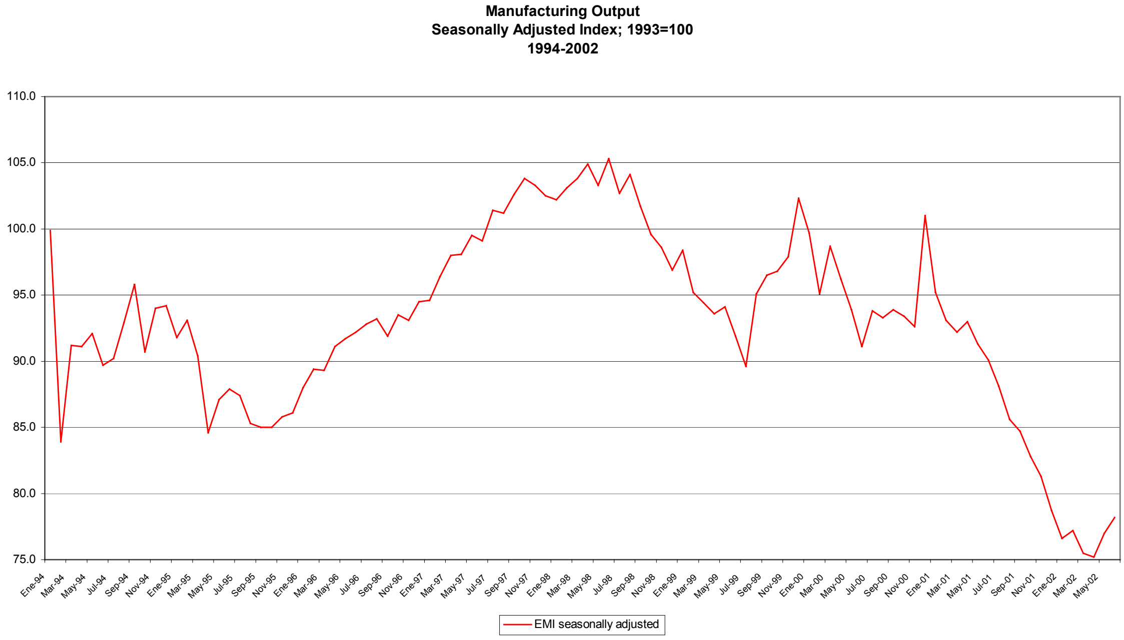
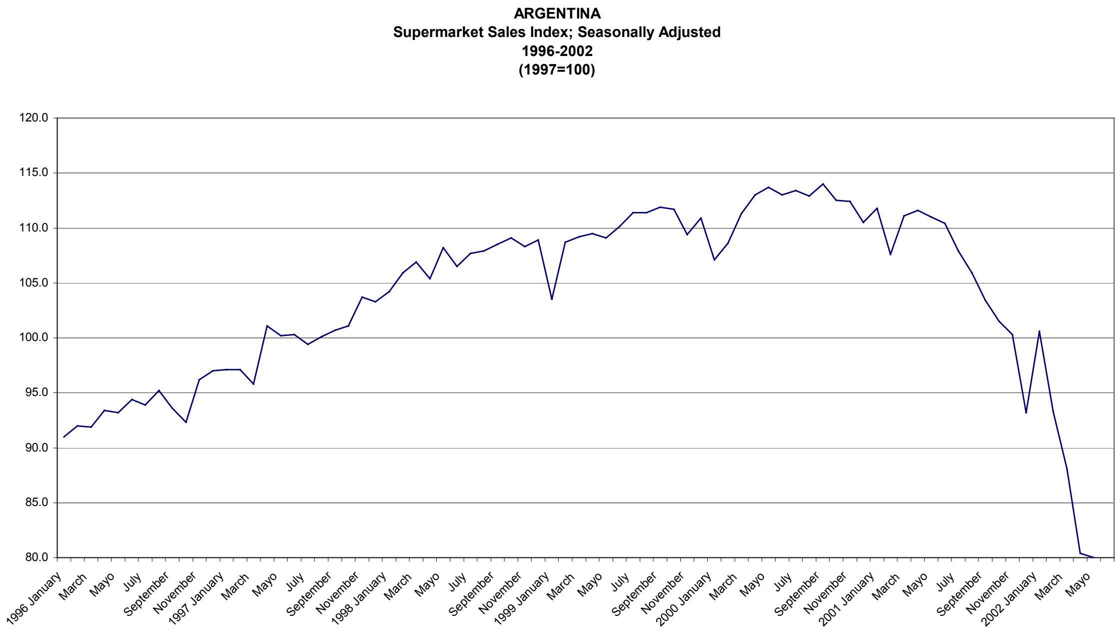


Chart 6



As to perceptions among the economic agents, a diffusion index of the state of demand - the difference between those thinking that things would improve and those that thought they would deteriorate further - that had been in positive territory throughout the year 1997 and the first half of 1998 - had reached minus 54 by

December 2001 although it has been gradually recovering since then to minus 35. At the end of year 2001 a consumer confidence index that had been changing wildly over the previous years, again was a third below its highest level reached in December 1999, at the time a new government - de la Rua's - was taking office.
Under such a situation a severe underutilization of resources developed. For instance, unused capacity in the manufacturing industry has reached 41 per cent of full capacity.[5]

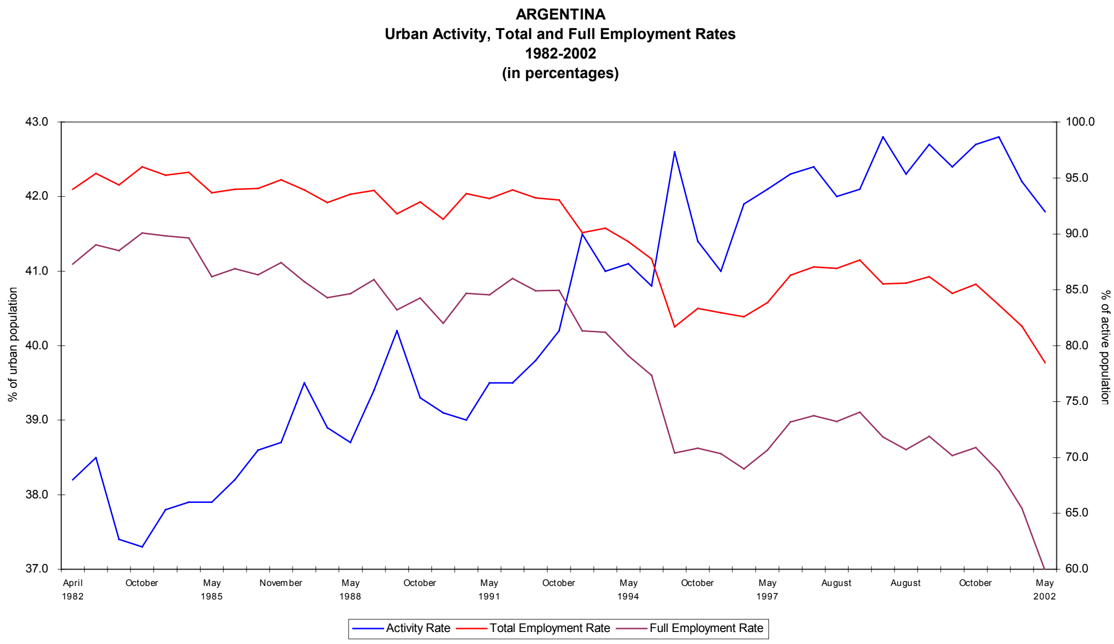
The decline of employment and the surge in unemployment

And to keep our attention on idle resources, by May 2002, open unemployment and underemployment of the labour force, as already mentioned, stood, respectively at 21.5 and 18.6 per cent. It should be remembered that even under the hyperinflationary crisis of late 1980's and early 1990's, open unemployment had been comfortably in the single-digit range (at its highest point, in May 1990, it reached 8.6 %).
An important fact to keep in mind is that the employment-unemployment situation had been deteriorating for quite some time as may be gathered from the following chart. While in the 1980's the total employment rate had been stable, right from the beginning of the 1990's a declining trend takes over. As to the full employment rate that had been gradually declining in the previous years, it accelerates and goes through two lows, the first one in 1996-1997 as a consequence of the "tequila" crisis and the second, in the "tango" present day crisis.
What strikes the eye is that even at the time of the first expansion of the decade – 1990 to 1994 – total employment rates were declining. Truly, part of such decline was due to an expansion in the activity rate, with a larger section of the population entering the labour force. But such an increase does not fully explain the behaviour of employment rates (out of an increase of 2.5 percentage points in the unemployment rate, 1.8 points only could be explained by the increase in activity rates). A good explanation has to be found and it hinges both on increases in productivity and on the fact that imports started filling a larger proportion of total demand. In its turn, this surge in import de-substitution was a consequence of the bringing down of trade

[5] See FIEL Indicadores "Utilización de la capacidad instalada" as found in Cuadro A1.23 in Rep.Argentina, Ministerio de Economía, Indicadores Económicos, agosto de 2002.

barriers and the progressive overvaluation of the "peso" this last factor we deal with later. The increase in productivity, in its turn, was also a consequence of the same factors that made capital goods cheaper in relative terms to labour. [6]

Chart 7



In fact as the following chart strikingly shows employment and GDP that had followed similar paths up to the early 1990's, do part ways afterwards, in fact even before the "tequila" crisis of 1995-1996.

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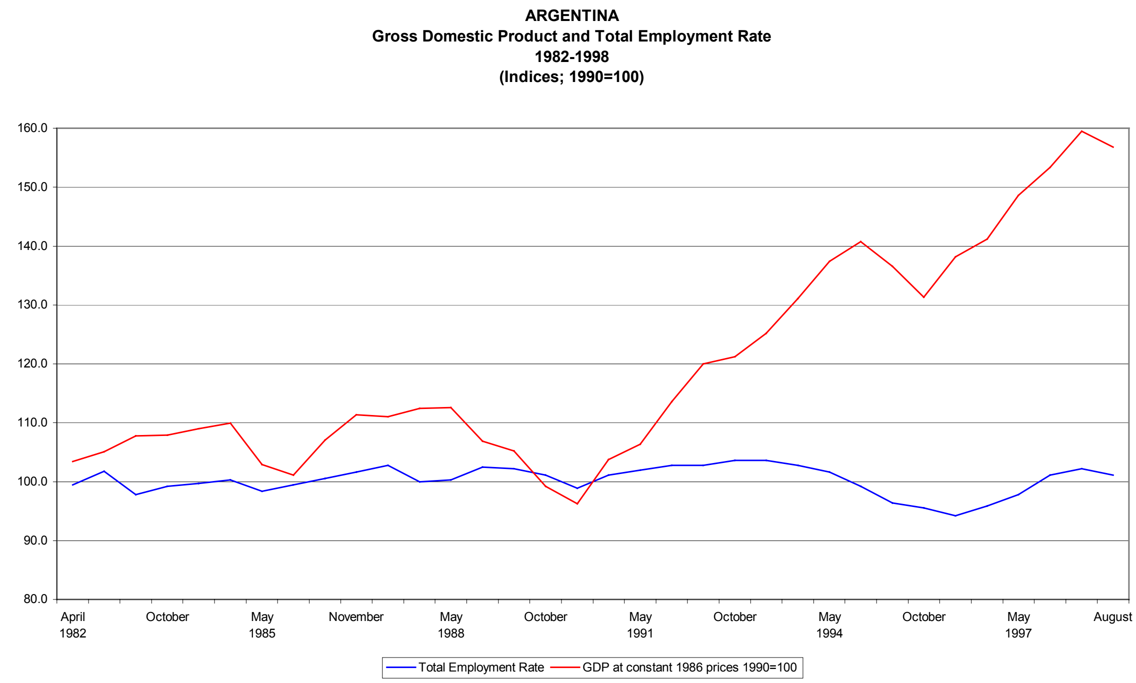
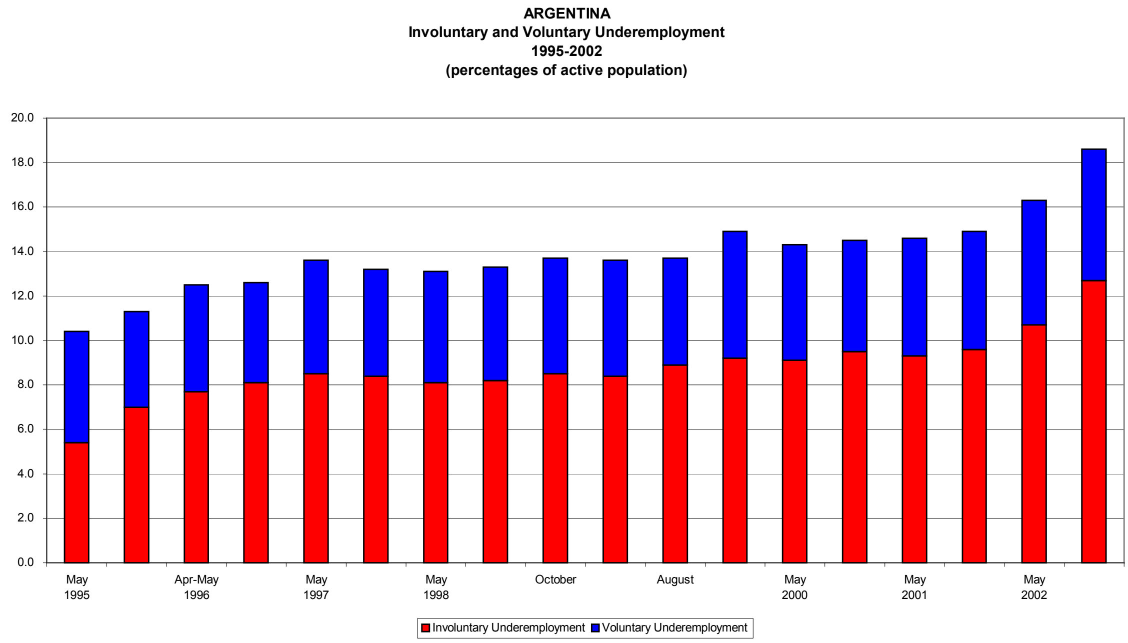
[6] For a full treatment of these issues see the seminal paper by Frenkel, R. y M. Gonzalez Rozada "Liberalización del balance de pagos; Efectos sobre el crecimiento, el empleo y los ingresos en Argentina"; CEDES, Buenos Aires, 1999, from which I have derived inspiration for these paragraphs on the employment-unemployment situation. The trend in labour productivity growth in manufacturing industry – between 1990 and 1996 – could explain an employment contraction of 25%; it was less than that due to the expansion in demand. In its turn the expansion in demand for domestic output was less than the overall expansion in demand – over the same period – as a consequence of the increase in imports; the authors estimate that more than half the increase in demand was eaten up by this factor.

Chart 8



Within the employment rate the underemployment rate is hidden; the following chart shows the increase of underemployment – at the same time that total employment as we have seen was declining – and the fact that involuntary unemployment becomes an increasing portion – measured beginning in 1995 – of the total underemployment rate. Involuntary unemployment, in fact, acts as a cushion against movements in full employment.

Chart 9



A detailed sectoral examination of the employment performance shows that it was manufacturing employment to be the laggard in the boom years and the one that shed more jobs in the recession ones.[7]

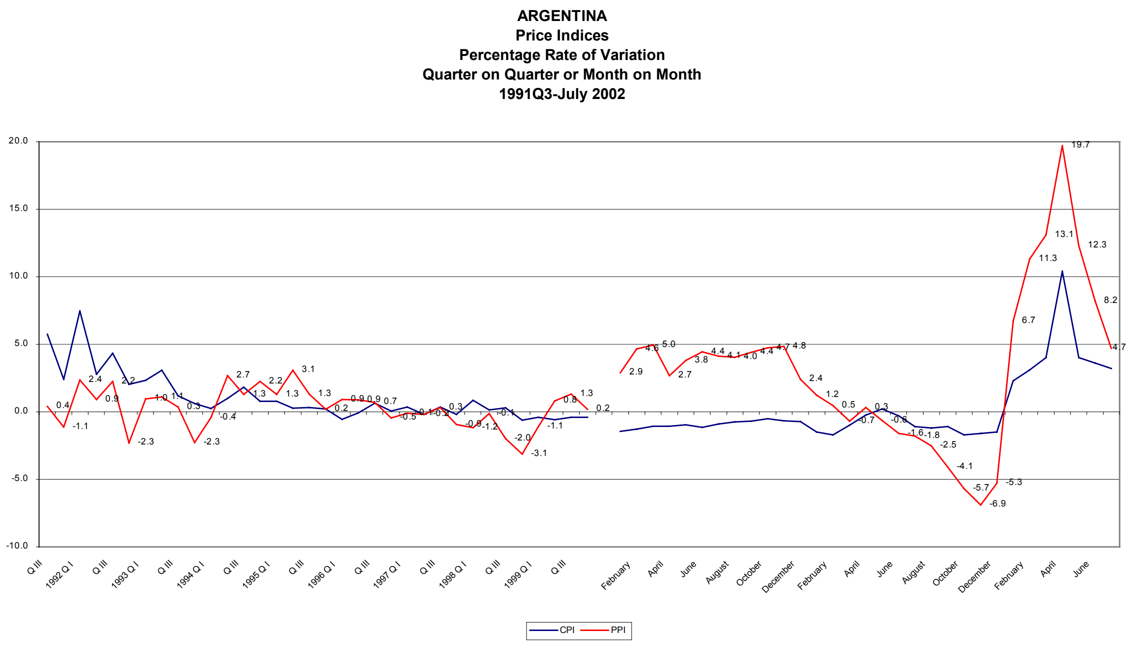
<u>*Price behaviour; inflation inertia, stability and deflation*</u>

Under the influence of such an accumulation of idle resources and a fall in output and sales, a true deflation started to dominate the goods markets by the year 1999. Goods

[7] Ibid.

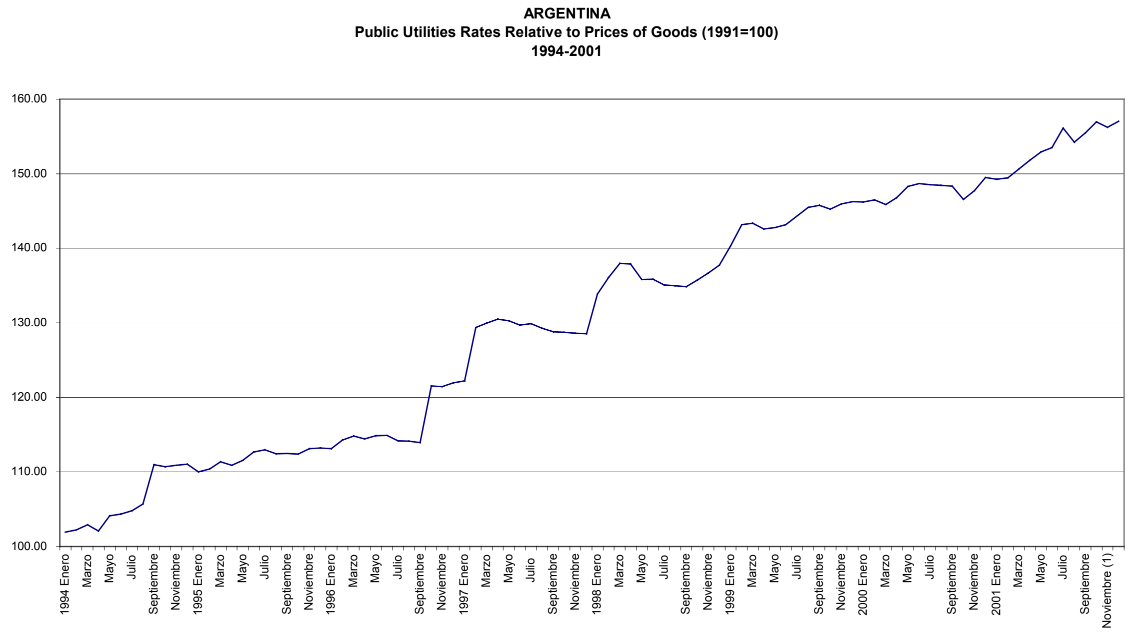
prices in the consumer price index had dropped 8.6 per cent by December 2001, relative to their peak in September 1998. And producer's prices had also declined persistently in about the same degree beginning in the second half of 1997. If the influence of a fixed exchange rate had been decisive in the first few years of the 1990's in dominating inflation, by the year 2001 price stability – or better now decline - had become a consequence of recession rather than of anything else (such an argument would be validated again in the year 2002 when a devaluation of 260 per cent has resulted in an inflation over the first seven months of this year of "only" 35 and 106 per cent, as measured, respectively by the CPI and the PPI).

Chart 10



If an element of inflation remained in the system it originated in the services sectors and most specifically in the public utilities. An index of tariffs of public utilities shows an increase over the life of "convertibility" – from April 1991 to December 2001, of fully 57 per cent more than goods prices. This is a piece of information to remember. Privatization and "foreignization" of public utilities had been easily accepted by public opinion at the beginning of the 1990's. But it had become a very contentious issue by the beginning of this decade – remember the long conflict in the year 2000 about the possible bankruptcy of the privatized airline company - and one that impinges on the attitudes towards readjustment of tariffs now under devaluation and inflation.

Chart 11



<u>*The overvaluation of the "peso"*</u>

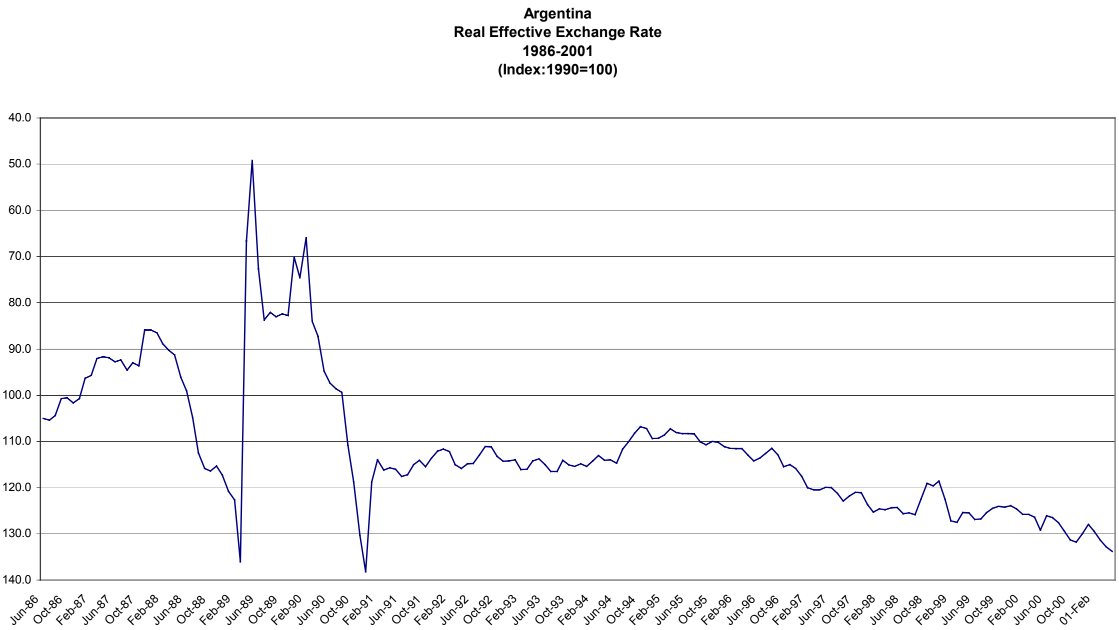
As it is well known, beginning at the end of March 1991, the Argentine government took the decision to fix the exchange rate to the U.S. dollar at the 1:1 ratio by law of Congress, making it more difficult to devalue than if it is only fixed by the monetary authorities.[8] It was part of the "Convertibility Program" which additionally instituted

[8] At the beginning it was fixed as 10.000 Australes – the currency in circulation since 1986 – to one dollar; later on a new currency – the "peso" – was introduced at the rate of 10.000 Australes per "peso".

a quasi-Currency Board, i.e., the authority granted to the Central Bank to issue domestic currency only against foreign exchange.[9]

No doubt it became a powerful instrument to bring down price increases from almost hyperinflationary rates. As argued by quite a few economists, the problem with the fixed exchange rate was, first, that at the moment of the enactment of the "convertibility law", the real exchange rate was already overvalued for what had been the experience of Argentina in the second half of the 1980's. Leaving aside the years of huge devaluations at the end of that decade, the real exchange rate against the U.S. dollar stood, at the moment of enactment of "convertibility", 14 per cent above the level for the second half of 1986 year, a moment widely acknowledged to be one of a reasonable real exchange rate (as measured by the JPMorgan real broad effective exchange rate calculations).

Chart 12



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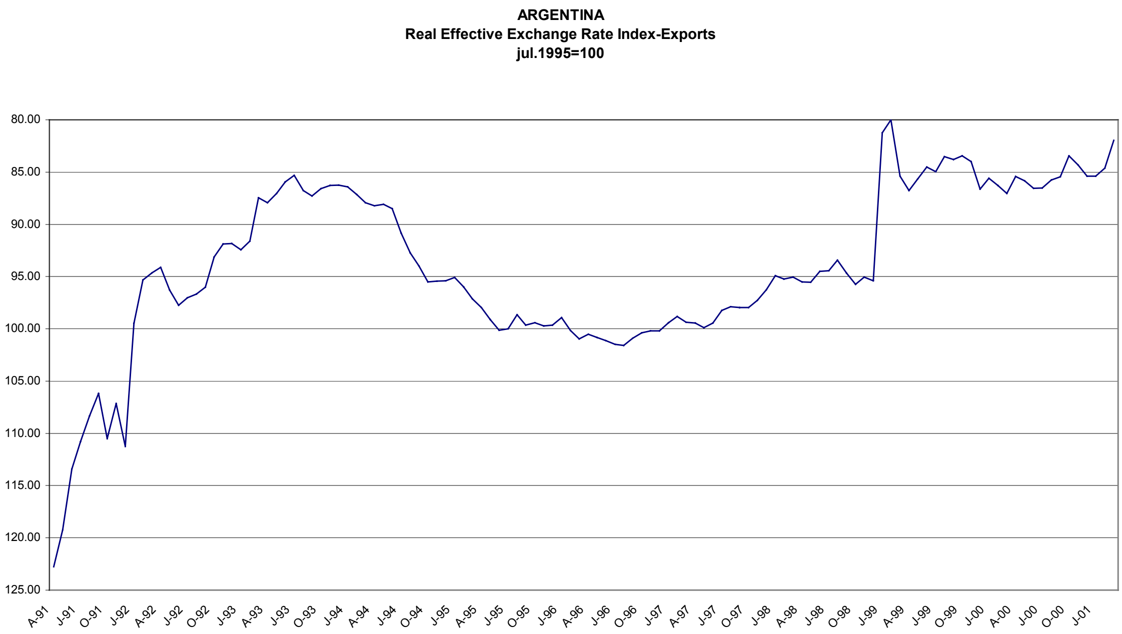
[9] I use the term quasi-Currency Board because there was some leeway built-in the "Convertibility Law" by which a portion of the currency could be issued against Government debt denominated in foreign currencies.

The second problem was that as inflation took some time to come down, the overvaluation was even greater in the following 2 years, the real exchange rate reaching its highest point early in 1993.

Chart 13



Beginning at that time as a consequence of inflation being lower in Argentina than in the United States or as already mentioned actually turning into deflation, the peso started to mildly devalue against the U.S. dollar but this process came to a stop in early 1997. After that a major customer for Argentine exports – Brazil –was forced to undergo a drastic devaluation of its new currency - the "Real" – early in 1999. Many other developing countries – including China - as a consequence of the various financial crisis had also devalued their currencies beginning with Mexico in 1995, Argentina remaining with Hong-Kong almost the only two countries that maintained their exchange rates. And additionally the U.S. dollar – to which the Argentine peso was "hard pegged" – underwent a sizable overvaluation against the other major currencies, most important for Argentina against the European Continent currencies. Over the whole decade it has been estimated that the real effective exchange rate of Argentina appreciated enormously. In a technical note by the Research Department of the Central Bank – the above chart No. 13 was derived from this source – the accumulated overvaluation from April 1991 to March 2001 was estimated as 40 per cent.[10]

The above estimates of the real exchange rate are based on historical comparisons. Many observers – mostly local – had argued that the overvaluation of the "peso" at the beginning of the 1990's was justified on the grounds of the boost in productivity and efficiency as a consequence of the victory against inflation and the "opening-up" to foreign trade and investment. In fact as our figures for employment and output have shown there was a significant increase in productivity in those early years of "convertibility". A recent paper by G. Perry and L. Servén comes to our help to make an attempt at better gauging the overvaluation of the "peso" and its components.[11]

To begin with, their estimate of the accumulated appreciation of the "peso" – as measured by an index of the real effective exchange rate - over the period 1990 to 2001 is 75 per cent. And their estimated rate follows the pattern of rising appreciation till 1993 (10% per year), followed by depreciation up to 1996 (-4% per year) and again appreciation from that date onwards (5.2% per year).

As argued in their paper, it is crucial to correct real exchange rates, first, for relative changes in productivity – to take into account the Balassa-Samuelson effect – and, second, to include current account sustainability, as measured in their case by the net foreign asset position. Using a methodology that incorporates both concerns, Perry and Servén, arrive to the estimate that the equilibrium real effective exchange rate had appreciated over the 1991-1993 period to be followed by monotonic depreciation. On such a basis, comparing that equilibrium rate with the true rate, they reach the

[10] See "Escudé,C. et al. "Evolución del tipo de cambio real multilateral de la Argentina en los últimos 10 años"; BCRA, Nota Técnica No. 11, octubre 2001. Their estimate of an accumulated appreciation of 40% over the whole decade is the result of an appreciation of 35% from April 1991 to December 1993, followed by an 18% depreciation up to August 1996 and by renewed appreciation of 24% till March 2001, their last date.

conclusion that in the 1990 to 1995 period – mainly between 1990 and 1993 - the "peso" was undervalued reaching parity in 1996. From 1997 onwards misalignment developed on the side of overvaluation achieving a deviation from equilibrium value of 55 per cent by year 2001. The reason for the initial undervaluation is shown to be a result of productivity increases that come to a halt by 1995. From that point in time onwards the equilibrium exchange rate depreciates, as starting in 1993 a deteriorating net foreign asset position is not compensated after 1995 by renewed productivity growth.

In a further examination of the question Perry and Servén come to the conclusion that the strong United States dollar could easily account for half the overvaluation of the "peso" hard-pegged to that currency and that devaluation of the Brazilian "real" added some 14 points to the 55 per cent overvaluation in year 2001.

The result of all that was to place an enormous burden of adjustment on the Argentine economy which had to be sorted out through a combination of deflation and recession, cushioned by renewed access to international finance in the 1996-1998 period. It would have to give way under the growing difficulties to obtain finance in the later years.

Declining real wages, exploding poverty and worsening income distribution

As to real wages there was mild recovery after the hyperinflation episodes at the turn of the decade in the early 1990's which lasted up to the third quarter of 1992 (+8.1% relative to the 1989 bottom). It was followed by a gradual decline in the "formal" economy and some spurts of recovery in the later years. It obviously was largely influenced by the behaviour of unemployment and underemployment that we have surveyed.[12]

For the whole decade of the 1990's however, the average real wage was 15 per cent below that of the 1980's. And with the unleashing of the "tango" crisis of 2002, real wages in manufacturing had dropped by March this year 21 per cent relative to the December 2001 level. For wage earners at large – in the Greater Buenos Aires area –

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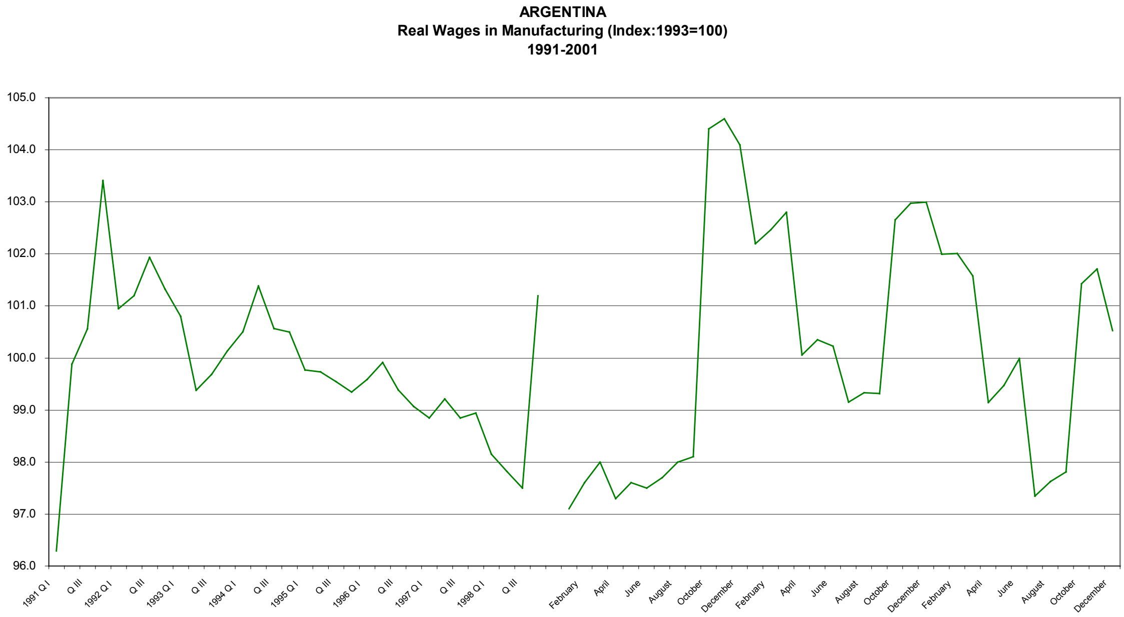
[11] See their "The Anatomy of a Multiple Crisis; Why was Argentina special and what can we learn from it"; May 10 2002 version.

[12] An increase – between 1991 and 1997 – of only 12.2% in the income per head of the active population, was the consequence of about 10 points being taken away by the increase in unemployment. See Frenkel, R. and M. Gonzalez Rozada, op.cit.

the decline between October 2001 and May 2002 was 22.2 per cent, as it comes out of the household survey, with the "black economy" earners being 28 per cent worse.

Chart 14

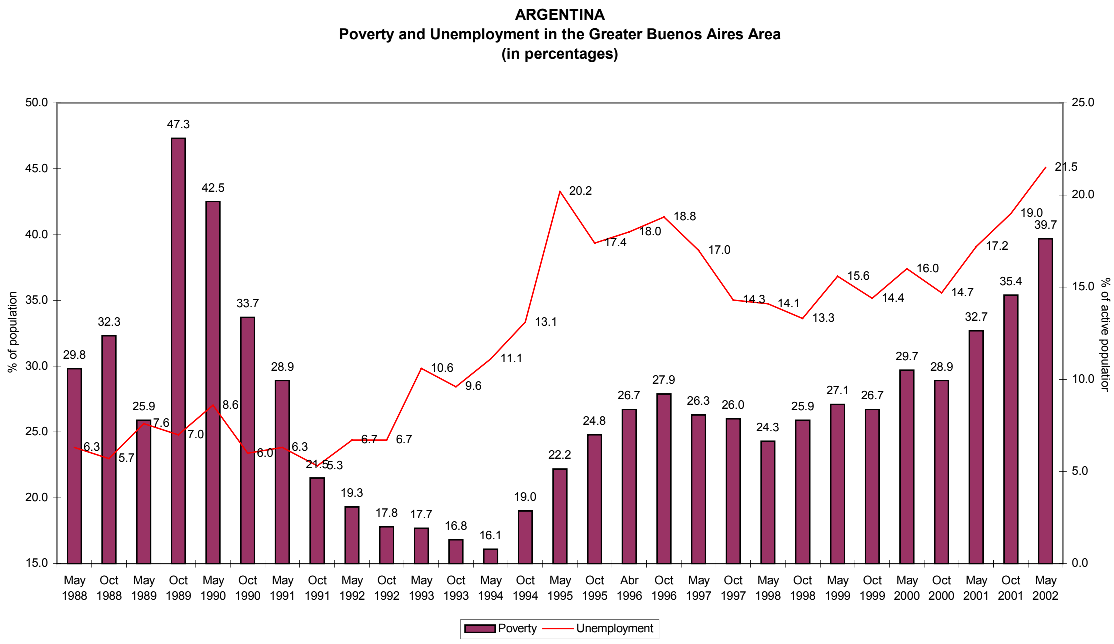


The initial recovery in real wages plus the progressive overvaluation of the "peso", made it for manufacturing labour costs – measured in United States dollars – to increase fast in the initial years of the decade. But under the influence of further increases in productivity costs eventually did fall, as may be gathered from the following chart, allowing a mitigation in the loss of competitiveness by the industrial sector in spite of the fixed exchange rate.

Chart 15

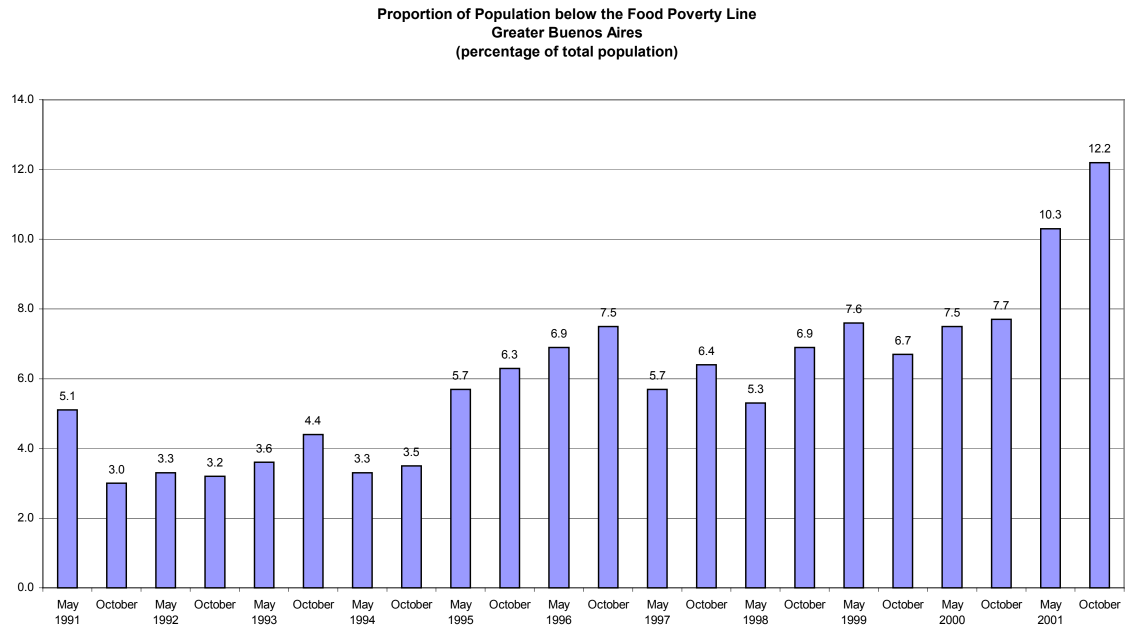
In spite of the surge in unemployment rates after 1991, the increase in real wages led to a decrease in poverty levels in the first few years of the 1990's. Later on as may be gathered from the following chart a strong trend to an increase in poverty levels takes on, reaching 40 per cent by May this year of 2001.

Chart 16



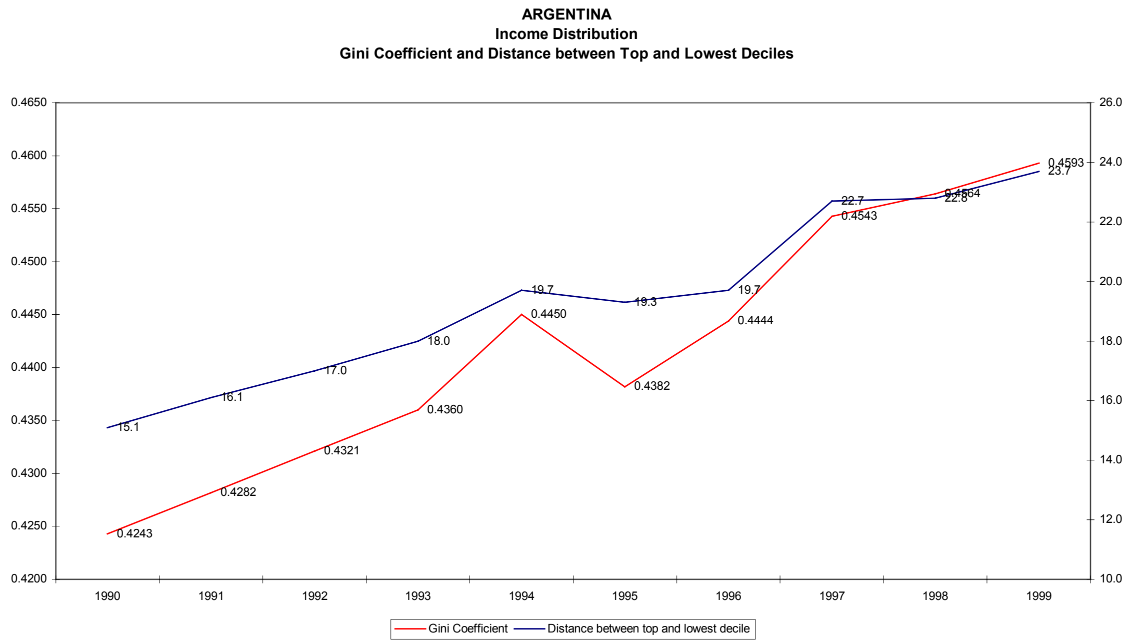
The odd question is that even in those more favourable years of the early 1990's, the proportion of the population below the food poverty line – whose income is not enough to buy a basic foodstuff basket – was already increasing. And, after a mild decline during the post-"tequila" crisis recovery, it began increasing again.

Chart 17



The following chart shows the effect of the various forces we have been surveying on the income distribution as measured by the Gini coefficient and the relation between incomes of the top and lowest deciles in the income pyramid.

Chart 18



To summarize, on the real side an accumulation of idle resources resulting in a persistent deflation had become a feature of the Argentine economy by the late 1990's. It was accompanied by overvaluation of the "peso", a decline in real wages, a regressive income redistribution and a fast increase in those under the poverty and food poverty lines.

Some major imbalances

Besides the imbalances in the "real" sector of the economy – unused capacity and labour force unemployment – some serious disequilibria developed in other sections of the economy. In the following sections the issues of external, fiscal and banking imbalances will be tackled.

The external imbalances

The external imbalance became more than apparent much earlier in the 1990's decade.

The accumulated current account deficit in the 1992-2000 period amounted to 84.9 billion U.S. dollars. And it was already negative from almost the very start of the decade, in 1992.[13] At cyclical peaks in economic activity - years 1994 and 1998 – it reached from 4 to 6 per cent of GDP.[14]

Additionally, as may be gathered from one of the last rows in the next Table 4 (Government Overall Surplus relative to GDP at current prices) and the following Chart 19, those deficits can hardly be attributed to the public sector (on the average – in the 1992-2000 period – the current account deficit was 3.6% of GDP while the government deficit was only 1% of GDP). The private sector was always in deficit, in a more acute way in the boom years of 1993-1994 and in 1998.

Moreover, while in 1994 at the first peak in economic activity of the decade, interest payments and profit remittances were only a third of the current account deficit, by 1998, those net outflows had become more than half of the current account deficit, surely making its correction more intractable. Recession and devaluations would leave that part of the deficit invariant differently to what could have been the case with trade in goods or real services.

[13] Reliable and encompassing figures under a systematic methodology start only in 1992.

[14] Conventionally, calculations of the current account include accrued interest on foreign financial placements by Argentine residents, compensated by an equal outflow of capital as those sums hardly enter the country. Adjusting the current account deficit for that figure – the calculation of which is included in the table 4 – easily adds to the deficit around 1 more point of GDP.

Table 4

	1992	1993	1994	1995	1996	1997	1998	1999	2000
ARGENTINA									
Balance of Payments-Current Account									
(in U$S million)									
Current Account	**-5,653.6**	**-8,161.5**	**-11,157.3**	**-5,210.5**	**-6,873.2**	**-12,333.4**	**-14,624.0**	**-12,001.0**	**-8,864.4**
Goods&Real Services	**-3,950.1**	**-5,686.6**	**-7,924.6**	**-1,100.5**	**-1,822.3**	**-6,571.8**	**-7,613.0**	**-4,950.6**	**-1,730.0**
Goods	-1,395.9	-2,363.6	-4,138.9	2,357.4	1,759.5	-2,122.7	-3,097.2	-794.6	2,558.0
Exports (FOB)	12,398.9	13,268.9	16,023.3	21,161.7	24,042.7	26,430.8	26,433.7	23,308.6	26,409.5
Imports (FOB)	13,794.8	15,632.5	20,162.2	18,804.3	22,283.2	28,553.5	29,530.9	24,103.2	23,851.5
Real Services	-2,554.2	-3,323.0	-3,785.7	-3,457.9	-3,581.8	-4,449.1	-4,515.8	-4,156.0	-4,288.0
Exports	2,986.0	3,072.1	3,340.9	3,735.3	4,258.5	4,403.3	4,612.1	4,442.6	4,682.9
Imports	5,540.2	6,395.1	7,126.6	7,193.2	7,840.3	8,852.4	9,127.9	8,598.6	8,970.9
Interest,Profits & Other Income (net)	**-2,472.1**	**-2,995.1**	**-3,694.3**	**-4,661.7**	**-5,496.1**	**-6,214.7**	**-7,408.8**	**-7,432.5**	**-7,369.7**
Inflows	2,349.0	2,588.7	3,458.5	4,386.0	4,436.0	5,470.0	6,101.2	6,108.7	7,502.6
Outflows	4,821.1	5,583.8	7,152.8	9,047.7	9,932.1	11,684.7	13,510.0	13,541.2	14,872.3
Interest (net)	-1,491.9	-1,522.1	-1,788.7	-2,526.0	-3,385.3	-4,211.3	-5,106.9	-5,855.0	-5,864.3
Interest (inflows)	2,002.0	2,087.0	2,986.0	3,847.8	3,965.9	4,615.8	5,240.4	5,474.1	6,486.8
Interest (inflows)-imputed private non-financial sector interest earned abroad	*1,465.0*	*1,229.0*	*1,891.0*	*2,435.0*	*2,400.0*	*2,525.0*	*2,757.0*	*3,001.0*	*3,561.0*
Interest (outflows)	3,493.9	3,609.1	4,774.7	6,373.8	7,351.2	8,827.1	10,347.3	11,329.1	12,351.1
Profits (net)	-991.1	-1,483.7	-1,916.1	-2,146.0	-2,118.9	-1,998.5	-2,294.7	-1,578.1	-1,509.6
Profits (inflows)	336.0	491.0	462.0	528.0	462.0	859.0	868.0	634.0	1,011.5
Profit (outflows)	1,327.1	1,974.7	2,378.1	2,674.0	2,580.9	2,857.5	3,162.7	2,212.2	2,521.1
Other Current Income	11.0	10.7	10.5	10.2	8.1	-4.8	-7.2	0.6	4.3
Current Transfers	**768.6**	**520.2**	**461.6**	**551.7**	**445.2**	**453.1**	**397.8**	**382.1**	**235.3**
Goods&Real Services (net)/Current Account (%)	69.9%	69.7%	71.0%	21.1%	26.5%	53.3%	52.1%	41.3%	19.5%
Interest&Profits (net)/Current Account (%)	43.7%	36.7%	33.1%	89.5%	80.0%	50.4%	50.7%	61.9%	83.1%
Interest (net)/Current Account (%)	26.4%	18.6%	16.0%	48.5%	49.3%	34.1%	34.9%	48.8%	66.2%
Profit Remittances (net)/Current Account (%)	17.5%	18.2%	17.2%	41.2%	30.8%	16.2%	15.7%	13.2%	17.0%
Adjusted Curr.Account (excl.imputed interest earned abroad by non-financial private sector)	*-7,118.6*	*-9,390.5*	*-13,048.3*	*-7,645.5*	*-9,273.2*	*-14,858.4*	*-17,381.0*	*-15,002.0*	*-12,425.4*
GDP at current prices	*...*	*236,505.0*	*257,440.0*	*258,031.9*	*272,149.8*	*292,858.9*	*298,948.4*	*283,523.0*	*284,203.7*
Current Account/GDP at current prices (%)		*-3.5%*	*-4.3%*	*-2.0%*	*-2.5%*	*-4.2%*	*-4.9%*	*-4.2%*	*-3.1%*
Adjusted Current Account/GDP at current prices (%)		*-4.0%*	*-5.1%*	*-3.0%*	*-3.4%*	*-5.1%*	*-5.8%*	*-5.3%*	*-4.4%*
Government Overall Surplus/GDP at current prices (%)		*1.2%*	*-0.1%*	*-0.5%*	*-1.9%*	*-1.5%*	*-1.4%*	*-1.7%*	*-2.4%*
Private Surplus/GDP at current prices (%)		*-4.6%*	*-4.2%*	*-1.5%*	*-0.6%*	*-2.8%*	*-3.5%*	*-2.6%*	*-0.7%*

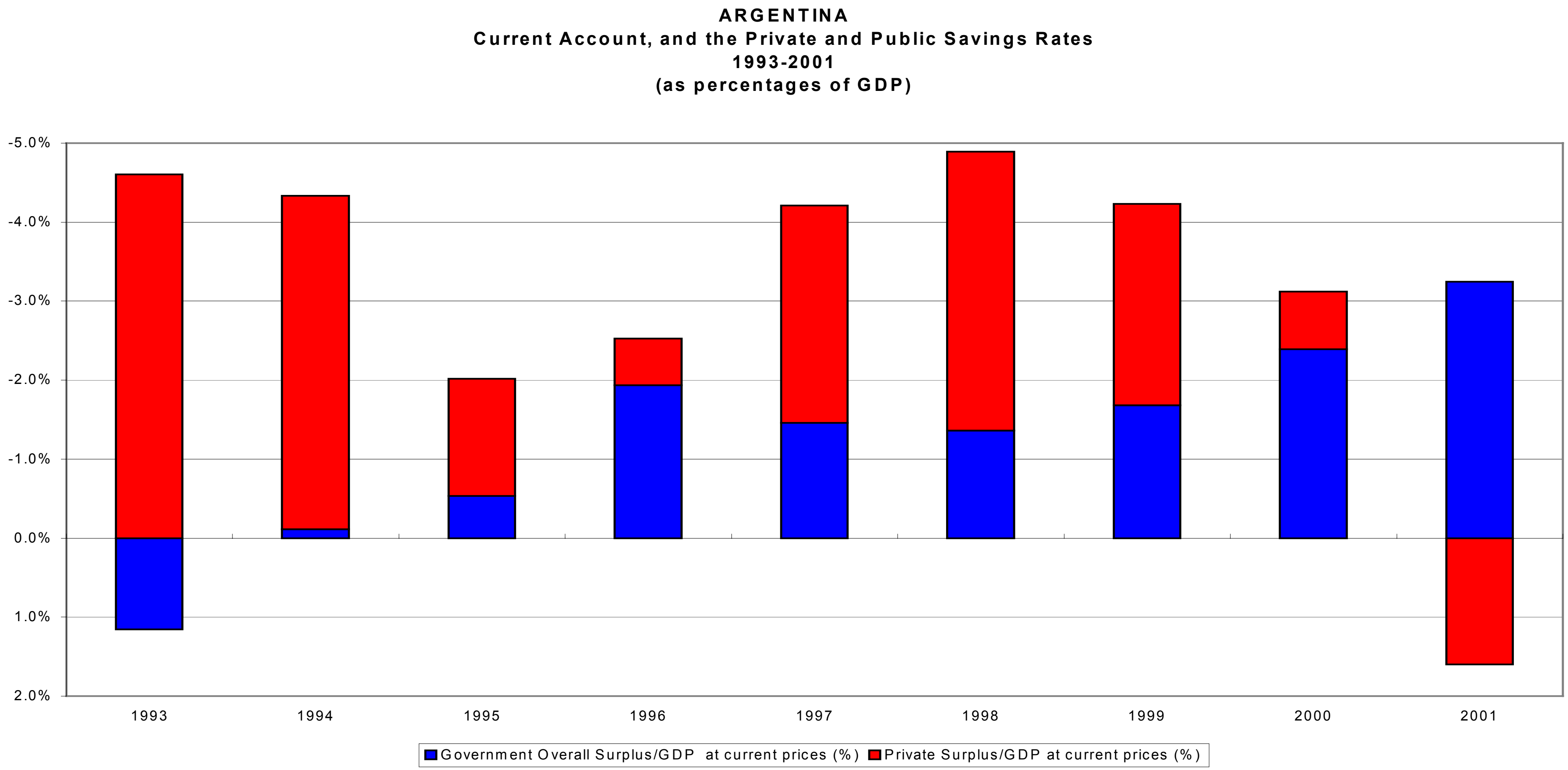
Source: Rep. Argentina, Min. Economía, Estimaciones trimestrales del Balance de Pagos, Cuarto Trimestre de 2001.

At the 1994 cyclical peak, interest&profit remittances were only a third of the c.acc. deficit.

At the 1998 peak, interest & profit remittances were more than half of c.acc. deficit.

At the two cyclical peaks - 1994&1998 - adjusted current account deficit almost reached 6 per cent of GDP.

Chart 19


ARGENTINA
Current Account, and the Private and Public Savings Rates
1993-2001
(as percentages of GDP)
-5.0%
-4.0%
-3.0%
-2.0%
-1.0%
0.0%
1.0%
2.0%
1993
1994
1995
1996
1997
1998
1999
2000
2001
Government Overall Surplus/GDP at current prices (%)
Private Surplus/GDP at current prices (%)

Over the 1992-2000 period the public non-financial sector and the central bank financed more than 50 per cent of the deficit in current account and more than 60 per cent of the deficit in current account plus the accumulation of international reserves. In fact by acquiring debt and selling State property to foreign investors, the government financed a huge private sector deficit.

Table 5

ARGENTINA	
Balance of Payments	
Financing of the Current Account-By Domestic Sector	
(in U$S million)	
	1992-2000
Current Account	**-84,878.9**
Capital and Financing Account	**113,730.0**
Capital Account	454.4
Financing Account	113,275.6
Public Sector (Central Bank plus non-financial public sector)	62,671.0
Central Bank	-775.9
Out of which: Compensatory Finance (2)	3,352.4
Non-Financial Public Sector	63,446.9
Banks (including government banks)	10,576.4
Private Non-Financial Sector	40,028.2
International Reserve Variation	**19,458.9**
Public Sector Financing/Financing Account (%)	55.3%
Bank Financing/Financing Account (%)	9.3%
Private Non-Financial Sector Financing/Financing Account (%)	35.3%
Financing the Current Account	**84,878.9**
Public Sector (Central Bank plus non-financial public sector)	43,212.1
Banks (including government banks)	10,576.4
Private Non-Financial Sector (1)	31,090.4
Domestic Sector Contribution to Current Account Finance	
Public Sector (Central Bank plus non-financial public sector) (%)	50.9%
Banks (including government banks) (%)	12.5%
Private Non-Financial Sector (%) (1)	36.6%
Current Account Deficit plus International Reserve Accumulation	**104,337.8**
Financing Current Account plus International Reserve Accumulation	**104,337.8**
Public Sector (Central Bank plus non-financial public sector)	62,671.0
Banks (including government banks)	1,184.2
Private Non-Financial Sector (1)	40,482.6
Domestic Sector Contribution to Current Account and International Reserve Accumulation Finance	
Public Sector (Central Bank plus non-financial public sector) (%)	60.1%
Banks (including government banks) (%)	1.1%
Private Non-Financial Sector (%) (1)	38.8%
Memo: Errors and Omissions	-9,392.2
(1) The non-financial private sector has been allocated the amounts for errors and omissions	
(2) IMF plus BIS.	
Source: Rep. Argentina, Min. Economía, Estimaciones Trimestrales de Balance de Pagos, Cuarto Trimestre de 2001.	

As may be gathered from the following table 6, foreign direct investment almost on its own managed to finance the current account deficit and international resserve accumulation. A great deal of it was not greenfield but change of hands and fully a quarter was the outcome of government privatizations.

Table 6

ARGENTINA	
Financing Current Account and Reserve Accumulation-By Type of Capital Movement	
(in U$S million and percentages)	
	1992-2000
Current Account	**-84,878.9**
FDI/Current Account (%)	***84.7%***
out of which Change of Hands (including privatizations)	***62.4%***
Privatizations	***25.0%***
Portfolio Investment/Current Account (%)	***44.2%***
out of which Bond Issues	***97.6%***
Other Investment/Current Account (%)	***-28.9%***
out of which Loans	***8.2%***
(1) Includes as an outflow the increase in international reserve accumulation.	
(2) Includes the errors and omissions figures and capital account operations.	
(3) Figures for FDI and forportfolio investment have been adjusted to include sale of YPF to Repsol in 1999 as FDI.	
Sources: Rep. Argentina, Min.Economía, Estimaciones Trimestrales del balance de Pagos, Cuarto Trimestre	
de 2001, Cuadros 01-Resumen y 09-Inversión Extranjera Directa.	

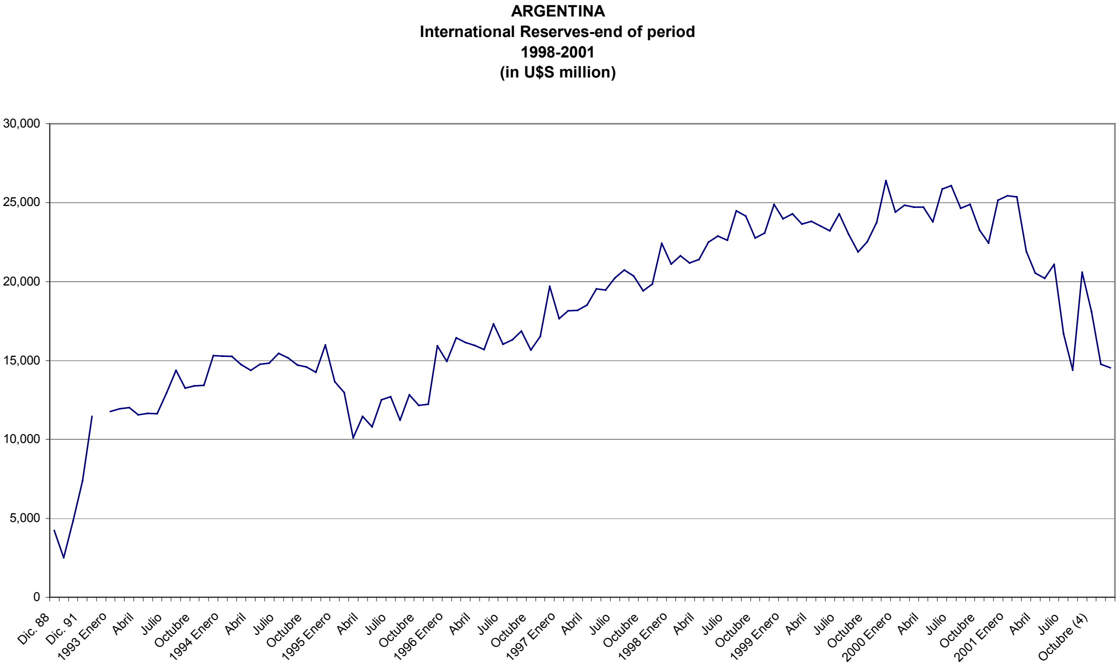
But on top of financing the current account deficit and accumulation of foreign reserves, there was a significant private sector capital outflow. As shown in the following table 7, gross private capital outflows amounted to 40 per cent of external financing requirements to which – net – the non-financial public sector provided 43 per cent of the needs.

Table 7

ARGENTINA		
Sources and Uses of Foreign Funds		
(in U$S million)		
	1992-2000	*1992-2000*
Gross Financing Requirement	**174,843.0**	**100.0%**
Current Account Deficit	84,878.9	48.5%
International Reserves Accumulation	19,458.9	11.1%
Private Sector Gross Capital Outflow	70,505.2	40.3%
Sources of Finance	**174,841.9**	**100.0%**
Private Sector Gross Inflows	100,289.2	57.4%
Public Sector Net Inflows	74,552.7	42.6%
Sources: Rep. Argentina, Min.Economía, Estimaciones Trimestrales del Balance de Pagos,		
Cuarto Trimestre de 2001, Cuadros 01-Resumen y 09-Inversión Extranjera Directa.		

Capital flows dominated the process of international reserve accumulation. During the two boom periods, capital flows ensured that in spite of growing current account deficits, international reserves would also grow. As shown in the next chart 20, reserves – but for a brief period under the impact of the "tequila" crisis – kept growing till mid-2000. From then onwards the fall was precipitous, by December 2001, 44 per cent ot their highest amount had been wiped away.

Chart 20



Most synthetically, the net transfer of resources originated in both the private and public sectors – equal to the deficit on goods and real services – was a net result of a positive transfer by the public sector and a negative transfer by the private sector. Over the 1993-2001 period, a positive transfer of resources with the rest of the world – on the average - of 1.4 per cent of GDP was the result of a 2.8 positive and a 1.4 negative per cent of GDP transfer of resources, respectively, by the public and the private sector.

Table 8

ARGENTINA	
Transfer of Resources	
(in U$S million)	
	1992-2000
Balance on Goods and Services	**41,348.3**
Private Sector Transfer of Resources	-17,961.0
Public Sector Transfer of Resources	59,309.4
Sources: Rep. Argentina, Min.Economía, Estimaciones Trimestrales del Balance de Pagos,	
Cuarto Trimestre de 2001, Cuadros 01-Resumen y 09-Inversión Extranjera Directa.	

The external current account deficit was associated with an extremely unbalanced foreign trade. As it happened all around Latin America, "opening up" to foreign trade, resulted in a faster increase of exports than that achieved in previous decades. But the other side of the coin was an even faster increase of imports. In the case of Argentina, an average annual rate of growth of exports of 7.8 per cent in the 1990-2000 period was counterbalanced by an average increase of imports of 19.7 per cent per year. Perhaps it is true that in some distant future date, “opening up” does lead to efficiency and results in a surge in exports. The trouble is that financial markets don’t look to so far a future and they start getting nervous when year after year the country produces enormous trade deficits only redressed at the cost of recession. Additionally the performance of exports was a result of a fast growth of those directed to the other Mercosur countries – mainly Brazil – while those to the rest of the world only increased at an average annual rate of 6 per cent. Imports revealed an extremely high income-elasticity under the influence of the reduction in trade barriers, the overvaluation of the exchange rate and the availability of cheap finance abroad (imports, for instance, in the first boom years between 1990 and 1994, were growing at a rate of 51% per year and again in the 1995-1998 period at 16% per year). Consequently, a significant trade deficit developed very early in the decade. While Argentina had witnessed high surpluses in its foreign trade in the late 1980’s and early 1990’s – in proportion to GDP higher than the proverbial Japanese ones – it shifted to deficits of close 2 per cent of GDP in non-crisis years in the 1990’s.

Table 9

ARGENTINA						
Exports and Imports of Goods						
(FOB/CIF)						
(in U$S million)						
Year	*Exports*	*Imports*	*Trade Balance*	*GDP @ Current Prices*	*"Openness"" (1)*	*Trade Balance/ GDP*
1980	8,021.4	10,540.6	-2,519.2	76,962	24.1%	-3.3%
1981	9,143.6	9,430.2	-286.6	78,677	23.6%	-0.4%
1982	7,624.5	5,336.9	2,287.6	84,307	15.4%	2.7%
1983	7,836.2	4,504.3	3,331.9	103,979	11.9%	3.2%
1984	8,107.4	4,584.9	3,522.5	79,092	16.0%	4.5%
1985	8,396.1	3,814.2	4,581.9	88,417	13.8%	5.2%
1986	6,851.9	4,724.2	2,127.7	110,934	10.4%	1.9%
1987	6,360.2	5,818.8	541.4	111,106	11.0%	0.5%
1988	9,136.3	5,322.0	3,814.3	126,207	11.5%	3.0%
1989	9,656.0	4,309.9	5,346.1	76,637	18.2%	7.0%
1990	12,488.2	4,196.6	8,291.6	141,352	11.8%	5.9%
1991	12,145.9	8,402.7	3,743.2	189,720	10.8%	2.0%
1992	12,398.9	14,981.7	-2,582.8	228,779	12.0%	-1.1%
1993	13,268.9	16,872.3	-3,603.4	236,754	12.7%	-1.5%
1994	16,023.3	21,675.1	-5,651.8	257,711	14.6%	-2.2%
1995	21,161.7	20,199.7	962.0	258,303	16.0%	0.4%
1996	24,042.7	23,855.1	187.6	272,436	17.6%	0.1%
1997	26,430.8	30,450.2	-4,019.4	293,167	19.4%	-1.4%
1998	26,433.7	31,377.4	-4,943.7	298,444	19.4%	-1.7%
1999	23,308.6	25,508.2	-2,199.6	283,166	17.2%	-0.8%
2000	26,409.5	25,243.0	1,166.5	284,204	18.2%	0.4%
2001	26,655.0	20,312.0	6,343.0	268,638	17.5%	2.4%
(1) Exports plus Imports relative to GDP at U$S current prices.						**1997-2001**
Source: CEPAL, Oficina en Buenos Aires, Indicadores Macroeconómicos, nov. 2000 and Rep. Argentina, Min.Economía, "Indicac						
for Foreign Trade figures and The World Bank, World Development Indicators, 2001 CD-ROm ed. for GDP in U$S curren						

A slight progress in the share of world imports may be detected but always as a consequence of the integration in the Mercosur customs union. And unfortunately, the only item were there is no increase in participation in world imports is that of high-technology manufacturing.

Table 10

ARGENTINA						
International competitiveness relative to world imports						
			1985	*1990*	*1995*	*1998*
			(percentages)			
I. Shares of world imports			**0.37**	**0.36**	**0.44**	**0.51**
Natural resource products 1/			0.91	1.05	1.59	1.94
Natural Resource based manufacturing 2/			0.47	0.55	0.64	0.69
Non-natural resource based manufacturing 3/			0.12	0.15	0.18	0.23
- Low technology 4/			0.23	0.26	0.28	0.27
- Medium technology 5/			0.08	0.14	0.20	0.32
- High technology 6/			0.08	0.05	0.04	0.05
Other 7/			0.10	0.10	0.15	0.14
Groups are based on SITC(SITC Rev.2)						
1/ 45 basic products easily processed, including concentrates						
2/ 65 elements: 35 agroindustrial and forestry goods and 30 other mainly metals-except steel-oil products,cement,glass,etc.						
3/ 120 groups representing the sum of 4/ + 5/ + 6/.						
4/ 44 elements: 20 groups from the textiles-garments cluster plus 24 other sectors (paper&pulp,glass,steel,jewellery,etc.).						
5/ 58 elements: 5 motor vehicle groups, 22 from the process industries and 31 from engineering.						
6/ 18 elements: 11 groups from the electronics cluster plus 7 other pharmaceutical products, turbines,airplanes,instruments						
7/ 9 groups unclassified mainly from section 9)						
Source: Katz,J. and G.Stumpo, "Regímenes competitivos sectoriales, productividad y competitividad internacional"; CEPAL, Santiago de Chile, julio de 2001						

In fact, Argentine exports continue to be dominated by those based on natural resource exploitation (up to two-thirds of the total) and most specifically – although oil and fisheries do matter now – on grains and meat in competition with the highly subsidized production of the more advanced countries in the world, the European Union, Japan and the United States (it has been estimated that Argentine exports could increase by about 10.000 million dollars – some 40% of present day exports – if barriers and support measures would be eliminated in those countries). As a result trade balances by sector show an extremely asymmetrical composition,

Table 11

ARGENTINA					
Exports and Imports - By Type of Product					
(in U$S million)					
				Average	*Per cent*
	1999	*2000*	*2001*	*1999-2001*	*of total*
EXPORTS					
Total	23,308.6	26,409.5	26,655.0	25,457.7	100.0%
Primary Products	5,144.4	5,427.9	6,136.0	5,569.4	21.9%
Agroindustrial	8,193.2	7,848.2	7,465.0	7,835.5	30.8%
Rest of Manufacture	6,965.6	8,195.8	8,325.0	7,828.8	30.8%
Oil, gas, oil derivatives & electrical energy	3,005.4	4,937.6	4,728.0	4,223.7	16.6%
IMPORTS					
Total	25,508.2	25,242.9	20,312.0	23,687.7	100.0%
Capital Goods	6,748.0	5,886.6	4,188.0	5,607.5	23.7%
Intermediate Goods	8,353.9	8,442.6	7,340.0	8,045.5	34.0%
Oil and Energy Products	730.2	1,034.9	837.0	867.4	3.7%
Parts and accessories for Capital Goods	4,197.3	4,448.6	3,402.0	4,016.0	17.0%
Consumption Goods	4,501.0	4,608.7	3,995.0	4,368.2	18.4%
Passenger motor vehicles	956.6	798.9	535.0	763.5	3.2%
Rest	21.2	22.6	15.0	19.6	0.1%
Source: Rep. Argentina, Min. Economía, "Indicadores Económicos; cuarto trimestre de 2001" for 1989-2000 and INDEC, Buenos Aires, enero 30 de 2002.					

Table 12

ARGENTINA						
Trade Balances By Sector						
Year 1999						
(in U$S million and percentages)						
	Primary			*Manufactures*		
	Products	*Traditional*	*Scale Economies*	*Durables*	*Medium&High Tech*	*Other*
Exports						
Total						
23,020.0	31.60%	27.90%	24.90%	7.40%	6.80%	1.40%
	7,274.3	6,422.6	5,732.0	1,703.5	1,565.4	322.3
Imports						
Total						
25,508.0	3.80%	18%	23.80%	14.10%	39.30%	1.00%
	969.3	4,591.4	6,070.9	3,596.6	10,024.6	255.1
Trade Balances	**6,305.0**	**1,831.1**	**-338.9**	**-1,893.1**	**-8,459.3**	**67.2**
Source: CEPAL, "Panorama de la Inserción Internacional de América Latina y el Caribe, 199-2002"; Santiago de Chile, marzo de 2001; Cuadros 3A&3B.						

Geographically, Argentina's exports destination is quite diversified, the European Union rather than the U.S. being second market after Brazil. But the geographical composition of imports does not match that of exports. Thus, besides the asymmetrical balances per type of product, as shown in the next table 13, there are enormous imbalances most specifically in trade with the NAFTA and the European Union partners.

Table 13

ARGENTINA					
Foreign Trade, By Region					
(U$S million)					
	1995-1999				
Zone-Country	Exports		Imports		Balance
	f.o.b.		c.i.f.		
	(accumulated five year values)				
Total	**120,748.06**	**100.0%**	**131,202.56**	**100.0%**	**-10,454.50**
MERCOSUR	40,617.29	33.6%	32,205.01	24.5%	8,417.28
Brazil	33,779.04	28.0%	29,051.82	22.1%	4,729.23
Chile	8,859.83	7.3%	3,104.41	2.4%	5,754.42
NAFTA	12,723.27	10.5%	30,508.16	23.3%	-17,785.89
EU (1)	22,323.70	18.5%	36,981.50	28.2%	-14,656.80
ASEAN	4,434.02	3.7%	5,070.84	3.9%	-637.82
China (2)	3,103.72	2.6%	4,588.30	3.5%	-1,483.58
Japan	2,720.71	2.3%	5,087.42	3.9%	-2,366.71
Rest	28,686.23	23.8%	18,744.34	14.3%	9,937.89
(1) 15 countries.					
(2) Includes Hong Kong beginning in 1998.					
Source: Rep.Argentina, INDEC.					

A more detailed examination by group of products and geographical destination would show that in exports to Latin America, the composition is radically different than for instance that of exports to the European Union (75% of exports to the region is made up of medium and high-technology goods while in the case of the EU 31 per cent are traditional manufactures and 22 per cent primary products).

The composition of Argentina's foreign trade has several important consequences. First, the already mentioned fact that the country is subject to some extreme forms of protectionism as a result of its specialization in temperate-zone food product exports, so that there is a ceiling in terms of quantities and prices to expansion along such well established lines. Second, the large concentration of exports in its own region and in more dynamic group of products, more than justifies the building up of a network of preferential agreements, most notably that of the MERCOSUR customs union. Third, the inconsistency between the slim geographic orientation of its exports towards the United States, making it little advisable – in a world of floating exchange rates - to peg its currency to the U. S. dollar and the preference of the population for this currency as the preferred one in terms of store of value and denomination of all major transactions (for instance, real estate ones that for decades have been denominated in U.S. dollars).

On the other hand, it has to be kept in mind that, in spite of the “reform” efforts to bring down trade barriers, Argentina keeps being an extremely closed economy, as may be gauged from table 9 (exports well below 10% of GDP). Additionally, as specialized in foodstuffs with little income elasticity – in fact much more dependent on the vagaries of weather in the major producing regions of the world – the country is quite immune to the state of the world economy activity. Moreover, the country has become a minor oil exporter so that it is much less vulnerable than, say, Brazil and Chile in the Southern Cone of South America, to the instability and periodic surges in world oil prices. Thus quantities exported and terms of trade shocks have had little to do with world business cycle, differently for instance from metal products exporters like Chile in the region. As the following table 14 shows, terms of trade shocks on account of both factors – little elasticity to world economic activity and a closed economy -–have been not that serious in this last decade in the case of Argentina, although quite significant in the 1997- 1999 period, still during boom years and right before a major customer for its exports – Brazil - had its currency strongly devalued. On the whole,between 1996 and 1999, a negative swing in terms of trade of 1.1 per cent of GDP took place. It hit Argentina precisely at the moment when it had to adjust to the shocks of the various devaluations of the 1997-1999 period, notably that of Brazil and the collapse in capital flows to “emerging markets”. Fortunately, there was a rapid recovery of three-fourths of that loss in the later years, maybe too late when the stakes had turned against.

Table 14

ARGENTINA							
Exports Purchasing Power and Profit (or Loss) on account of Foreign Trade							
Período	*Exports U$S million at 1993 prices (A)*	*Terms of Trade Index (1993=100) (B)*	*Exports Purchasing Power U$S million at 1993 prices (C)=(A)*(B)/100*	*Profit (or Loss) on account of Foreign Trade U$S million at 1993 prices (D)=(C)-(A)*	*Change relative to previous year (E)=(D)-(D-1)*	*GDP U$S million at 1993 prices (F)*	*Profit (or Loss) on account of Foreign Trade relative to GDP at 1993 prices (G)=(D)/(F)*
1986	8,630.0	85.4	7,370.0	-1,260.0	n.d.	195,568.0	-0.6%
1987	7,775.3	84.9	6,601.2	-1,174.1	85.9	201,259.0	-0.6%
1988	9,585.3	92.3	8,847.2	-738.1	436.0	196,113.0	-0.4%
1989	9,875.5	89.8	8,868.2	-1,007.3	-269.2	181,412.0	-0.6%
1990	12,656.3	89.8	11,365.4	-1,290.9	-283.6	177,060.0	-0.7%
1991	12,463.9	92.5	11,529.1	-934.8	356.2	199,493.0	-0.5%
1992	12,259.5	97.2	11,916.2	-343.3	591.5	223,314.0	-0.2%
1993	13,117.8	100.0	13,117.8	0.0	343.3	236,505.0	0.0%
1994	15,392.8	101.5	15,623.7	230.9	230.9	250,307.9	0.1%
1995	19,267.6	101.8	19,614.4	346.8	115.9	243,186.1	0.1%
1996	20,544.2	109.8	22,557.5	2,013.3	1,666.5	256,626.2	0.8%
1997	23,620.1	108.4	25,604.2	1,984.1	-29.2	277,441.3	0.7%
1998	26,361.9	102.5	27,020.9	659.0	-1,325.1	288,123.3	0.2%
1999	26,160.1	96.4	25,218.3	-941.8	-1,600.8	278,369.0	-0.3%
2000	26,878.6	106.3	28,572.0	1,693.4	2,635.2	276,172.7	0.6%
2001	28,099.4	105.7	29,701.1	1,601.7	-91.7	263,869.5	0.6%

** Provisional estimate.*
*** Vis a Vis first half of 2000.*
Source: Rep. Argentina, Min. Economía, "Indicadores Económicos; cuarto trimestre de 2001";Table A4.17 after INDEC for terms of trade data and the same WWW publication for GDP at 1993 prices projected backwards using WDI-2001 data at 1995 prices.

What Argentina had become much more vulnerable to was to capital flows. In fact, the whole "model" became a "debt-led" model rather than one following the concept of "export-led" development, i.e., opening up and other "market friendly" policies intended to establish that pattern successfully followed in other countries.

As mentioned before even in spite of sizeable direct investments in the country, the accumulation of current account deficits – U$S 84.9 billion - and gross private financial outflows - U$S 70.5 billion - in the 1992-2000 period led to an increase in foreign debt from U$S 62.2 billion in 1990 to U$S 146.2 billion by the end of 2000.

Table 15

ARGENTINA			
External Debt and Debt Indicators			
	1974	*1990*	*2000*
Total debt stocks (EDT) (DOD, US$ million)	**7,628.2**	**62,232.2**	**146,172.0**
Total debt (EDT)/Exports of goods and services (XGS) (%)	..	374	381.0
Total debt (EDT)/GNI (%)	10.0		53.0
Debt service (TDS)/Exports of goods and services (XGS) (%)	...	37	71
Source: The World Bank "Global Development Finance" database (data beyond 2000 are contractual obligations only).			

By the end of year 2000, a much larger proportion of external debt was private than at the beginning of the 1990's – private debt increased from 14 to 37 per cent of total foreign debt – and external debt is now mainly bond debt rather than bank loans as it was the case in the 1980's. Both factors have made external debt a much more intractable one to renegotiate terms than the early 1980's one.

The phenomenon of private external debt accumulation was similar to that experienced in the late 1970's, i.e., under a liberalized system of capital movements and due to the asymmetries of the financial system, it is much cheaper for firms having access to international financial markets, to fund themselves in this rather than in the domestic market. This last one is a very incomplete and expensive one offering only short-run finance at extremely high interest rates (above 10% in real terms, all the way up to 50%). Thus, foreign or large domestically owned firms are able to have a competitive advantage over the rest. The dark side of the coin comes to the surface when devaluation happens and the local debtor is working in a non-tradable sector. With incomes denominated in "pesos" and debts in what suddenly become expensive dollars, most firms become technically insolvent, as the increase in debts translated into local currency wipes away their whole net worth. But besides such balance sheet effect, honouring debt service becomes an almost impossible task. In the 1980's, in Argentina, the problem was sorted out through a system of exchange rate insurance that involved a large subsidy to the indebted firms from government. Bearing in mind the precarious state of public finances – also under the impact of devaluation on its own debt - it is difficult to envisage a similar way out for the present-day difficulties.

Table 16

ARGENTINA		
External Debt-By Domestic Debtors		
(in U$S million and percentages)		
	Dec-91	Dec-01
Total external debt	**61,335**	**139,783**
Private Sector External Debt (as a percentage of total external debt)	14.0%	37.2%
Public Sector External Debt (as a percentage of total external debt)	86.0%	62.8%
Private Sector External Debt/GDP (%)	...	19.3%
Public Sector External Debt/GDP (%)	...	32.7%
Source: Rep. Argentina, Min. Economía "Estimaciones Trimestrales del Balance de Pagos" ; cuarto trimestre de 2001.		

Non-financial sector external private debt was mainly concentrated in a handful of companies (three-quarters was owed by 59 companies), foreign owned firms were also responsible for 75 per cent and most specifically the privatized public utilities were responsible for 39 per cent of it all.[15]

The present day difficulties to honour debt service by the private sector, therefore, is a highly concentrated but a serious phenomenon. It should be remembered that a majority of the privatization contracts for public utilities had prescribed "dollarized" tariffs, indexed by the cost of living in the U.S. Under a huge devaluation like the one we are witnessing right now, such clauses have become impossible to implement because of the impact it could have on the population at large. Once again, risk avoidance leads to the writing of contracts that become unenforceable precisely in the circumstances when the risk materializes. But on the other hand, as we have just seen, it is precisely those foreign-owned public utilities that hold a large portion of private foreign indebtedness, of course, denominated in foreign currencies.

As to the total external debt aggregate, habitual ratios to gauge its burden show a more than highly indebted country. External debt was almost four times goods exports and – at the 1:1 rate of exchange to the U.S. dollar – more than 50 per cent of Gross Domestic Product as may be gathered from table 15 (under the present rate of 3.6 "pesos" to the U.S. dollar and with a combined domestic inflation of something like 50%, the ratio between external debt and GDP may have jumped to easily 150%). The sum of short-term debt – that entered into at less than 12 months maturity – amortization of medium to long-term debt and interest on all external debt, in the last

[15] See Rep. Argentina, Min. Economía "External Obligations of the Private Non-Financial Sector; 1991-1998"; Tables 5 and 6.

few years, used to represent about twice a normal year goods exports. The country therefore was and is under the need to obtain finance for the current account deficit plus renewal of maturing debt of enormous amounts. On top of it profit remittances on foreign direct investment were growing fast with a total stock of FDI – by the end of year 2000 - of 72.9 billion dollars (out of a total of 71.9 billion U.S. dollars of gross inflows of FDI – in the 1992-2000 period – 42 billion were just change of hands, i.e., did not involve new plant and equipment).[16]

And of course, in what used to be a totally liberalized – domestically and externally - financial market there is always the possibility of a run against the banks holding – at the end of year 2000 - deposits of about U$S 83.9 billion, 62 per cent of which were denominated in foreign currencies.

Conditions for multiple equilibria and self-fulfilled runs against debt, the "peso" and the banks well already well established and of course were extremely vulnerable to the deteriorating conditions in international financial markets and most specifically in the "emerging markets" section of it.

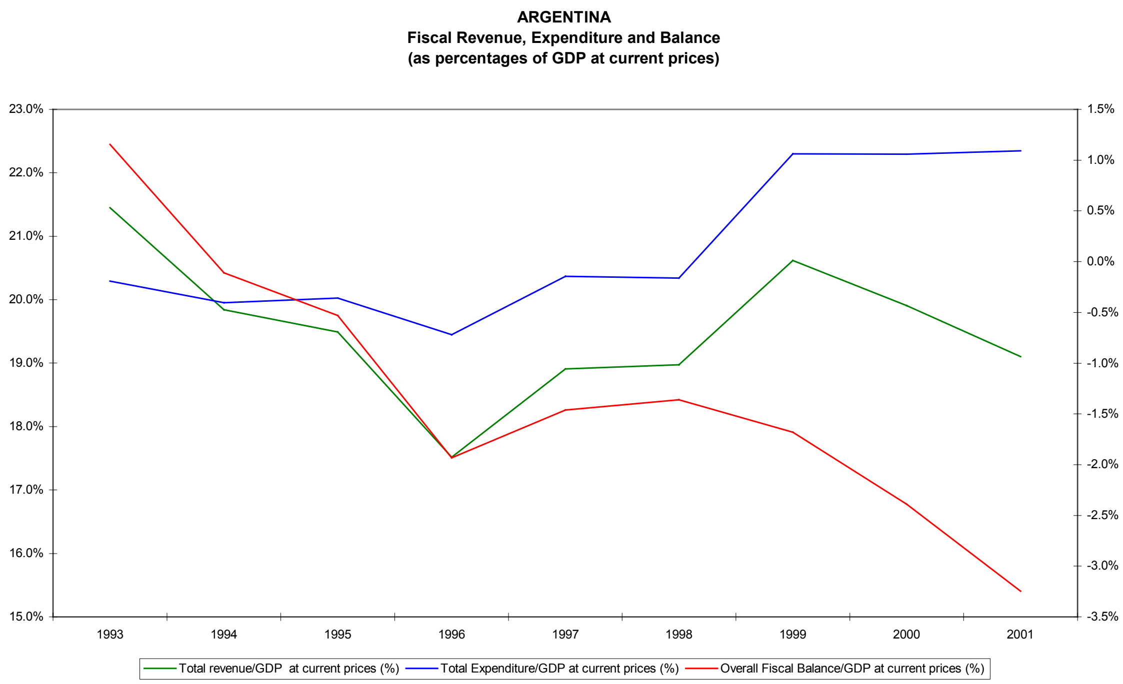
[16] On the whole what is labelled as the international investment position of Argentina – investments abroad less debts and investment by foreigners in the country – shifted from a minus 8.600 million to minus 90.000 million U.S. dollars over the 1991 to 2001 period (but the private sector accumulated direct, portfolio and other investments abroad for about 58.000 million dollars). See Rep. Argentina, Min. Economía, "La Posición de Inversión Internacional de Argentina a fines del año 2001"; 31 de julio de 2002.

The fiscal imbalances

A large section of analysts and commentators both inside and outside Argentina have made it for fiscal imbalances to be the reason for all the misfortunes of the country. It is important therefore to bring forward some data on the subject.

First of all, as may be gathered from the following chart, total fiscal deficit was really small, on the average in the 1993-2001 period it was only 1.3 per cent of GDP.

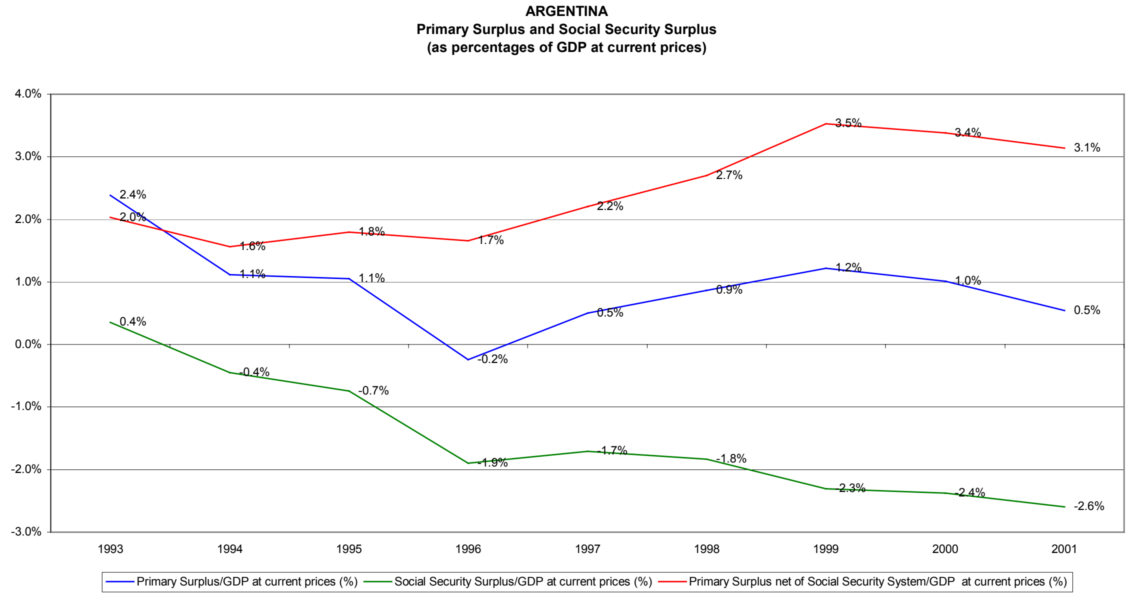
Chart 21



Second, a clear deterioration after 1998 is evident. But then it started being influenced by the joint action of recession on revenues and of higher interest rates on total expenditure.

As to the last factor one may recollect that but for the year 1996 – still under the effects of the "tequila" crisis - the country was in primary surplus throughout the period as shown in the following chart. By the way,as it is depicted in this chart, the primary surplus net of the social security deficit, would have reached well above 3 points of GDP in the last few years. We will have more to say below about the effect of pension "reform" on fiscal deficits.

Chart 22



In the already mentioned paper by Perry and Servén an effort is made to correct the actual fiscal figures for the effect of recession and the rise in interest rates in the last three-to-four years.[17]

As to the first factor, their conclusion – and that in a paper by Blanchard that is quoted by them – is that there was a significant impact of recession and that correcting for this factor the period after 1998 looks like one when the structural overall budget balance did not deteriorate, to the contrary some improvement may be detected (but over the boom period of 1996-1998 there certainly was some deterioration criticized as unnecessary laxity).

The problem was that the improvement in the structural fiscal balance was not enough to compensate for the increase in interest payments. Interest payments increased from 1.6-1.7 per cent in 1995-1996 – previous to the Asian crisis – to 3.4 and 3.8 per cent of GDP, respectively, in years 2002 and 2001. As may be seen in the following table 17, they ended up being 20 per cent of government current revenues. Perry and Servén estimate that out of the close to two points of GDP of increase in interest payments – between 1996 and 2000 – 1 full point was just a consequence of the rise in interest rates.[18]

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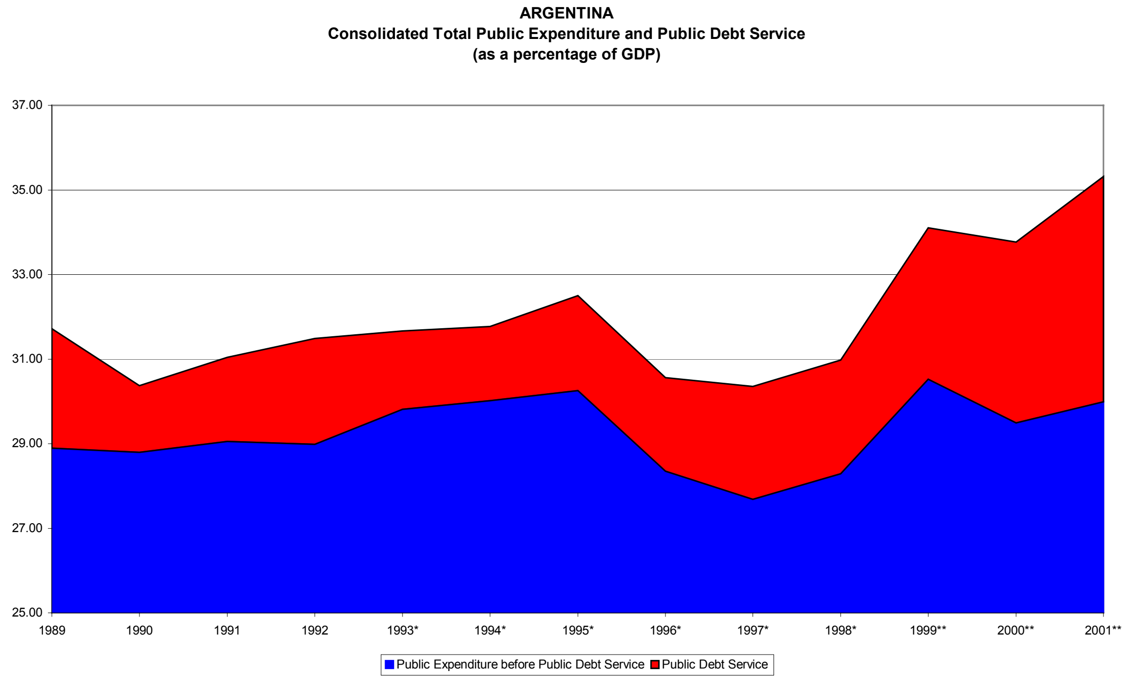
[17] See Perry, G. and L. Servén, op.cit., section IV.
[18] Ibid., Table 4.2.

Table 17

ARGENTINA									
Government Interest Payments, Current Revenue and GDP at current prices									
(in percentages)									
	1993	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*
Interest Payments/Current Revenue (%)	5.8%	6.3%	8.3%	9.8%	10.5%	11.8%	14.8%	17.2%	19.9%
Interest Payments/GDP at current prices (%)	1.2%	1.2%	1.6%	1.7%	2.0%	2.2%	2.9%	3.4%	3.8%
Source: Rep.Arg., Min.Economía, "Indicadores Económicos", Cuadro A6.1									

Third point, over the last twenty years, total public expenditure in Argentina has only slightly increased in terms of GDP; it was 29 per cent of GDP in 1980 and it was 30 per cent in 1997 the last year before the present day recession. Beginning in 1998 consolidated public expenditure went up to 35 per cent of GDP but out of this increase of five points almost three points went up to pay for an augmented public debt service. So it is pretty difficult to argue that there has been fiscal profligacy and that this is “the” reason behind the various crises.

Chart 23



Fourth point, the deficit of the pension system – partially privatized – jumped from 0.5-0.6 in 1993-1994 to 5.6 points of GDP in year 2001. That was principally the consequence of the already mentioned fact that while the public pension system kept being in charge of almost all pensioners, worker's contributions were to a large extent diverted to the private system (from 1994 to 1996 social security contributions to the State system went down from approximately 11.500 million to 9.500 million U.S. dollars). Additionally, with the purpose of defending the fixed 1:1 exchange rate to the U.S. dollar, in a policy of partially redressing the lost competitiveness, firm's contributions to the pension system – all of it going into the public sector – were reduced, resulting in an augmented negative impact on fiscal resources. In fact, the public pension system deficit was much larger than the Public Sector Borrowing Requirement in all and every year and larger than the Public Sector Deficit but for the year 2001.

It is true that pension reform made it immediate what would have been anyway a future drain on public finances. But that is precisely the point, i.e., a need for more finance appeared suddenly to be tapped in the international and domestic markets and, second, it might have alerted market agents to an imbalance that had been hidden up to that moment. Surely as advised by the IMF in 1994 – leading to a break up with Minister Cavallo at that time – "pension reform" would have demanded further fiscal adjustments and also funding the resulting net imbalance in the very long term.

Bearing in mind the incompleteness of markets for “emerging market” debts, most specifically for long-run paper, then bringing forward what was an impicit contract with future pensioners no doubt resulted in a larger debt burden. Of course many commentators and perhaps Minnister Cavallo himself thought that they had a nice source of funding at hand but still one quite more expensive to tap.

Whatever its origin, public deficits cumulated into a ballooning public debt (public debt grew from U$S 97 billion to U$S 128 and U$S 141 billion pesos, respectively, at the end of year 2000 and that of year 2001). As shown in the following table 18, by the end of year 2000 it had reached 45 per cent of GDP at current prices, admittedly not a large figure, for instance, for European Union standards. Of that total only 4 per cent was denominated in local currency. On the other hand, success had been achieved in reducing the proportion of short-term debt to only 4 per cent of the total, by the end of year 2000.

But in spite of those low ratios, service on public debt – estimated for 2002 with no change in interest payments relative to 2001 – would take up more than half the gross revenue of the federal government and more than twice that revenue net of transfers to the pensions system, to subnational levels of government, autarchic agencies and the private sector.[19] A true razor’s edge.

And, also, examination of debt sustainability at those levels of public debt to GDP– the minimum ratio in the primary surplus to GDP necessary for public debt not to grow more than GDP – would result in the need, in the last few years for an almost unimaginable increase in the surplus actually achieved of 2.5 to 3 points of GDP. Derived from the habitual equation that multiplies the difference between projected growth and interest rates by the proportion of debt in GDP, the crucial assumption – besides the high rates of interest being paid by the Argentine government – being the one about the expected growth rate which was actually negative in the last two years.[20]

Table 18

[19] Maturities on principal – for the year 2002 – were estimated as U$S 16.7 billion and interest payments in 2001 were U$S 10.2 billion. On the other hand total revenue was U$S 51.1 billion and transfers made up an aggregate of U$S 38.1 billion. See Rep. Argentina, Min. Economía, “Indicaodres Económicos”, agosto de 2002.

[20] For a sample calculation under reasonable assumptions see Perry, G. and L. Servén, op.cit, Table 4.3.

ARGENTINA					
External and Public Debt					
(in US$ billion and percentages)					
	1997	*1998*	*1999*	*2000*	*2001*
External Debt	124.7	140.5	144.7	147.2	139.8
Public External Debt incl. Central Bank	74.8	82.4	84.8	85.7	87.8
Private External Debt	49.9	58.0	59.9	61.5	51.9
Public Debt	101.1	112.4	121.9	128.0	144.4
Public External Debt	72.8	81.1	82.4	81.4	83.1
Public Domestic Debt	28.3	31.2	39.4	46.6	61.3
GDP at current prices	292.9	298.9	283.5	284.2	268.6
External Debt/GDP at current prices (%)	*42.6%*	*47.0%*	*51.0%*	*51.8%*	*52.0%*
Private External Debt/GDP at current prices (%)	*17.0%*	*19.4%*	*21.1%*	*21.6%*	*19.3%*
*Public Debt/GDP at current prices (%) **	*34.5%*	*37.6%*	*43.0%*	*45.0%*	*53.8%*
Public Domestic Debt/GDP at current prices (%)	*9.7%*	*10.5%*	*13.9%*	*16.4%*	*22.8%*
** Values up to 1996 are extracted from Table 4.5 in Perry,G. and L. Servén "The Anatomy of a Multiple Crisis; Why was Argentina special and what can we learn from it"; May 2002.*					
Sources: Rep. Argentina, Min. Economía, "Indicadores Económicos"; agosto de 2002.					

But as it was true of external debt in general that relation between public debt and GDP is very much dependent on the exchange rate. Under anything close to an equilibrium exchange rate – as discussed previously by year 2001 quite far away from the 1:1 ratio – the innocently looking public debt to GDP ratio would increase to a much more threatening level, let alone under a devaluation like the one that the "peso" has undergone in year 2002.

The following table is an official exercise at valuating debt ratios after devaluation but still at the March 31^{st}. exchange rate of 2.90 for each U$S (the actual rate in the last couple of months has been close to 3.60). Even at that much reduced level of devaluation, public debt amounted to 140 per cent of GDP and external debt at 164 per cent of GDP. Of course with that debt ratio and at that - and even more at the present-day - level of the exchange rate there is no conceivable primary surplus – even under optimistic assumptions about growth and interest rates – that would result in a situation of public debt sustainability.

Table 19

Debt Ratios			
March 31st., 2002			
(in percentages and million pesos)			
	% of GDP	% of Exports of Goods and Services	% of International Reserves
Public Debt - Gross	139.5%		
Public Debt - Net	128.8%		
Gross Foreign Debt (*)	164.3%	794.5%	
Gross Foreign Debt - Non-Financial Public Sector and Central Bank	103.1%	498.5%	
Foreign Debt Service (*)	3.3%	15.9%	
Foreign Public Debt Service (*)	1.9%	9.2%	
Short-Run Foreign Debt (*)	21.1%	101.9%	133.0%
Value in current pesos	*234,036*	*48,390*	*37,061*
(*) Debts denominated in U$S have been converted to pesos at the exchange rate of March 31st. 2002, i.e., Pesos 2.90=1U$S			
Source: Rep. Argentina, Min. Economía, Subsecretaría de Financiamiento, "Deuda Pública"; 1er.trimestre de 2002.			

It has to be kept in mind that having persisted with the Currency Board *cum* 1:1 system, the deflationary adjustment that would have been necessary to achieve equilibrium in the external accounts would also had made it extremely difficult for public debt to be sustainable.

The banking imbalances

Along the 1990's decade, a strong process of financial development took place. With inflation and hyperinflation left behind and renewed expansion, liquidity in relation to GDP started increasing as may be seen in the following table 20. The degree of monetization was multiplied although the level reached was still below more habitual standards.

Table 20

ARGENTINA			
Liquidity Coefficients			
(percentages)			
Period	M1/GDP	M2/GDP	M3/GDP (2)
1985	2.9	9.4	...
1986	3.7	11.6	...
1987	3.2	11.7	...
1988	2.2	10.6	...
1989	2.2	8.5	10.6
1990	1.8	4.0	5.4
1991	2.4	4.6	7.3
1992	3.4	6.3	10.3
1993	4.5	9.0	15.0
1994	5.1	10.3	17.9
1995	5.2	9.7	17.5
1996	5.6	10.7	19.7
1997	6.0	12.0	22.1
1998	6.2	13.3	25.7
1999	6.3	14.0	29.1
2000	6.1	13.5	29.9
2001	5.7	12.0	29.4
** M3 is equal to M2 plus foreign currency-denominated deposits*			
Source: CEPAL, Oficina en Buenos Aires, "Indicadores Macroeconómicos", nov.2000.			

The Argentine banking system, particularly after renewed efforts to strengthen it in the second half of the 1990's, was supposed to be among the best in the (developing) world.

Regulations were tightened after the "tequila" crisis resulted in a bank run that – devoid of a full lender of last resort – demanded some external support, most specifically, from the international financial institutions. First, capital requirements became quite more stringent than those recommended under Basel standards. Liquidity demanded was also very high and a privately managed limited deposit insurance company (SEDESA) was set up. Additionally, a contingent repo facility was established with a consortium of international banks which, later, was reinforced by World Bank support.[21]

[21] A minimum capital requirement of 11.5% of risk-weighted private sector assets was introduced. During year 2000 it was complemented with positive weights for government loans and an obligation to mark-to-market government bonds. Supervision was organized around an enhanced CAMEL system under the BASIC program. Among other things, banks were forced to issue subordinated debt so as to introduce more market discipline in their behaviour and large banks had to get annual ratings from an international agency. As to

By 1998, following the CAMELOT rating system applied by the World Bank to evaluate banking systems around the world (developing countries only), Argentina stood in second place, right behind Singapore and ahead, for instance, of Chile in the region.[22]

Table 21

ARGENTINA							
International Comparisons of the Quality of Regulatory Environment							
Country	*Total Score*	*Capital Position*	*Loan Classification*	*Foreign Ownership (Management)*	*Liquidity*	*Operating Environmcnt*	*Transparency*
Singapore	16	1	6	2	5	1	1
Argentina	21	1	4	3	4	7	2
Hong Kong	21	3	9	1	2	2	4
Chile	25	5	1	4	8	5	2
Brazil	30	7	3	4	3	8	5
Peru	35	5	2	6	1	11	10
Malaysia	41	5	9	8	8	3	8
Colombia	44	3	4	11	6	10	10
Korea	45	7	9	10	11	3	5
Philippines	47	4	6	7	7	11	12
Thailand	52	7	12	12	8	6	7
Indonesia	52	7	8	9	12	8	8
Source: The World Bank "Argentina; Financial Sector Review"; Report 17864-AR; September 28, 1998.							

Additionally a process of concentration and increased foreign bank participation – in a way an almost expected consequence of the 1995 crisis - received some active support from the authorities. The number of banks was drastically reduced and more than half the number of provincial and local authority-owned banks decreased mainly through privatizations as shown in the following table 22.

Foreign bank entry was supposed to help in the event of foreign shocks – like the "tequila" one – having an impact on the country. The experience of the most recent

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liquidity, deposits with maturities of less than 90 days had a 20% reserve to which the repo international line was added providing overall a liquidity coverage of around 30% (the fall in deposits under the "tequila" crisis, as we shall see, had been less than 20%).

[22] The CAMELOT index combines rankings for different: (C) for capital requirements; (A) for loan-loss provisioning and definition of non-performing loans; (M) for management as measured by high-quality foreign bank presence; (L) liquidity; (O) for operating environment as measured by by definition and enforcement of property and credito rights and (T) for transparency as measured by banks being rated by international agencies and by an index of corruption. See The World Bank "Argentina. Financial Sector Review"; Report 17864-AR; September 28, 1998.

crisis – the “tango” one – does not confirm such an hypothesis. Only to an extremely minor extent foreign-owned banks have been ready to bring additional capital or even to roll over debts with their main offices to compensate for a run on their deposits.

Table 22

ARGENTINA
Financial System Transformations
1994-2001
(Number of Institutions)

				Exit						*Entry*						
			Total Number Jan.2,1995	*Total*	*Cancellations*	*Mergers(1)*	*Legal Status Transformations*	*Institutional Type Transformations*	*Privatizations*	*Total*	*Mergers*	*Legal Status Transformations*	*Institutional Type Transformations*	*New Entrants*	*Privatizations*	*Total Number Jan.31,2002*
TOTAL			205	152	47	76	10	6	13	54	4	10	6	21	13	107
Banks	Total		169	124	33	68	8	2	13	41	3	8	5	12	13	86
	Government-Owned	Total	31	19	3	2	0	0	13	1	0	0	1	0	0	13
		National Government	3	1	0	0	0	0	1	0	0	0	0	0	0	2
		Provincial Governments	23	16	3	1	0	1 (5)	11 (3)	1	0	0	1 (4)	0	0	8
		Local Authorities	5	2	0	1	0	0	1	0	0	0	0	0	0	3
	Privately-Owned	Total	138	105	30	66	8	2	0	40	3	8	4	12	13	73
		Corporations	82	63	23	38	1	1 (4)	0	34	2	7	4 (6)	8	13 (3)	53
		Cooperatives	38	37	5	27	5	0	0	1	1	0	0	0	0	2
		Branches of Foreign Banks	18	5	2	1 (2)	2	0	0	5	0	1	0	4	0	18
Financial Companies			20	11	8	1	0	2	0	10	0	0	1	9	0	19
Credit Unions			15	16	5	7	2	2	0	3	1	2	0	0	0	2
Savings & Loans Associations			1	1	1	0	0	0	0	0	0	0	0	0	0	0

(1) or transfer of tangible and intangible assets and/or liabilities
(2) Merger by take-over from abroad
(3) Includes 13 government-owned banks that were privatized less 2 banks (Banco de Corrientes S.A. & Nuevo Banco del Chaco S.A.) that previously private became public
(4) Transformation of a private institution into a government-owned one.
(5) Transformation of a private institution into a government-owned one

Source: BCRA "Información del Sistema Bancario"; agosto de 2002.

Moreover, some of the locally incorporated or cooperative banks were taken over by foreign banks so that out of those 53 locally incorporated banks, in fact, 21 had become foreign owned.[23] In the aggregate, therefore, 39 banks had become foreign-owned by the end of year 2000 concentrating 73 per cent of total bank assets.[24]
In fact concentration of the banking system was huge, and gathered pace after the "tequila" crisis, as shown in the following table 23.

Table 23

ARGENTINA		
Concentration of Bank Deposits		
(in percentages of total deposits)		
	Top 10 Largest Banks	*Top 10 Largest Private Banks*
Dec. 1990	54.1	50.0
Dec. 1994	50.6	50.0
Dec. 1998	70.5	68.0
Dic. 2000	73.3	69.9
Source: BCRA.		

The impact of concentration and transfer to foreign ownership has been much debated. One of the elements in the debate – apparently of relevance for the whole of Latin America – is its impact on lending to small and medium-sized firms. The evidence is not fully conclusive but on the whole this sector of firms – of great weight in all our economies most specially in terms of employment – seem to have been left relatively away from access to credit.[25] An additional reason for such a development

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23 Back at the end of 1994, out of a total of 82 locally incorporated banks only 13 had been foreign owned.
24 See Table 1 in De la Torre, A., E. Levy Yeyati and S.L. Schmukler "Argentina's Financial Crisis: Floating Money, Sinking Banking", June 3, 2002.
25 See, for instance, "The Ability of Banks to Lend to Informationally Opaque Small Businesses" by Allen N. Berger - Board of Governors of the Federal Reserve System - Leora F. Klapper - The World Bank – and Gregory F. Udell - Kelley School of Business, Indiana University August 2001 were some evidence about the Argentinean experience would show a negative impact of foreign bank ownership on lending to small firms although it would be related more to size than to foreign ownership. In "Bank Lending to Small Businesses in Latin America:Does Bank Origin Matter?" George Clarke, Robert Cull, Maria Soledad Martinez

in the case of Argentina was th fact that excluded – partially or fully - from the international market big firms resorted to the domestic banking system that received them with open arms. This way small firms were crowded-out by large firms in the last few years.
Concentration of bank lending, however, cut across different forms of ownership. Only cooperatively organized banks show a significant lower degree of concentration of their loan portfolios.
At first sight the standing achieved in the CAMELOT league tables seemed to be justified as witnessed by the following table 24.

Table 24

ARGENTINA					
Banking System Indicators					
(percentages at year-end)					
	1997	*1998*	*1999*	*2000*	*2001*
	(in percentages)				
Net Worth/Assets	12.10	11.40	10.70	10.50	...
Capital/Risk Weighted Assets according to Basel criteria	18.10	17.60	21.06	21.23	23.57
Non-Performing Loans/Total Loans (a)	8.20	6.00	10.67	10.02	12.24
Provisions/Non-Performing Loans (a)	...	...	61.11	...	67.29
Systemic Core Liquidity (b)	...	...	36.70	37.76	25.47
Return on Equity before Provisions	22.60	10.60	8.40	7.80	...
Return on Equity after Provisions	7.40	-2.20	-6.70	-9.40	...
Return on Assets after Provisions	1.00	-0.30	-0.80	-1.00	...
Leverage Ratio (Net Liabilities/Net Worth;not in percent)	6.10	7.30	6.61	6.63	5.60
(a) Non-performing loans are defined as the sum of loans with probles, at high risk and non-recoverable.					
(b) Ratio of Central Bank international reserves in foreign currency plus other liquidity requirements held abroad to total deposits.					
Source: BCRA "Sistema Financiero"; Indicadores, various issues.					

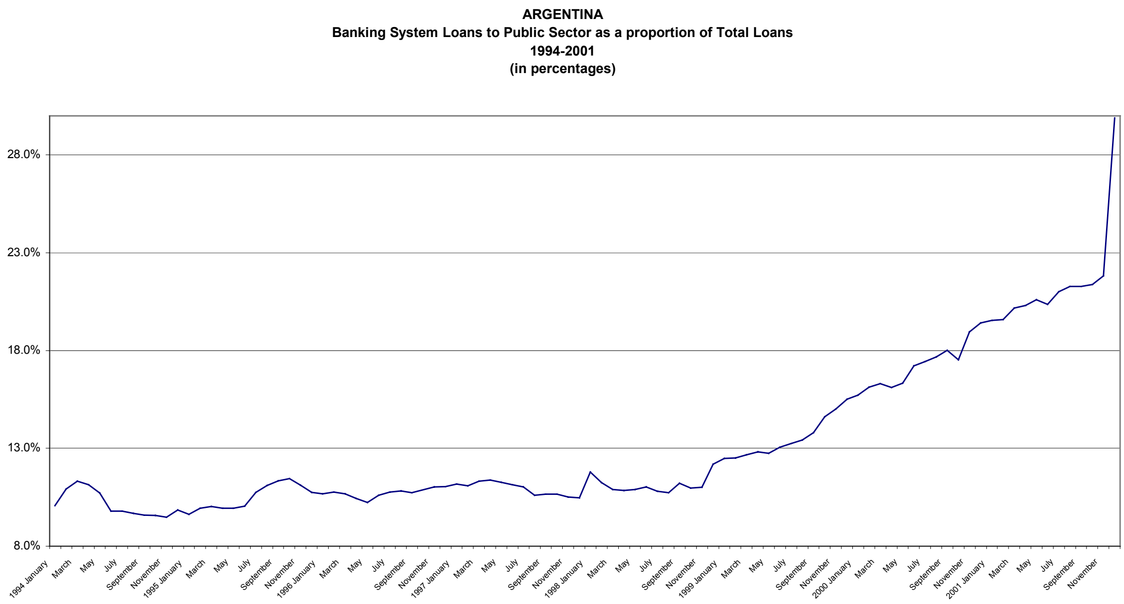
This system was in more than full compliance of Basel rules but two worrying elements come out of an examination of the above table, besides the fact that averages did not apply to each and every institution (for instance, the average liquidity ratio was enough, in principle to stand the bank run between February and November 2001 – a drop in deposits of 24% - before the "corralito" was introduced, but that was not necessarily the case for many institutions). One, bank profitability was low and becoming negative for many sections of the industry. Two, the proportion of non-

Peria, and Susana M. Sánchez January 2002, four countries in South America – including Argentina – were studied and the hypothesis about the impact of size and foreign ownership is confirmed.

performing loans – in spite of many efforts to cover up the phenomenon – was shooting up.[26]

An additional factor that comes out very clearly in the following chart 23 is the increasing proportion of bank loans taken up by the public sector.

Chart 24



That way, the banking system was becoming increasingly vulnerable to the developing fiscal difficulties of Argentina. Regulations had some influence on this because only late in the day - as mentioned above by the year 2000 - some non-zero risk weight was attached to government loans and government bonds were supposed to be marked-to market. In an already quoted paper by Dujovne and Guidotti, some stress tests were imagined to examine the impact of a fall in government bond prices. The conclusion is drawn that on the whole the system would resist no more than a fall of 37 per cent in those prices but foreign-owned banks would resist a drop of only 27 per cent.[27]

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[26] They were large differences anong banks on the two grounds. On the one hand, large private banks were much more profitable and, on the other, government owned banks were showing much larger proportions of NPLs. See, for instance, Dujovne, N. and P. Guidotti "El sistema financiero argentino y su regulación prudencial"; mayo de 2001.

[27] See Dujovne, N. and P. Guidotti, op.cit., Tabla 10.

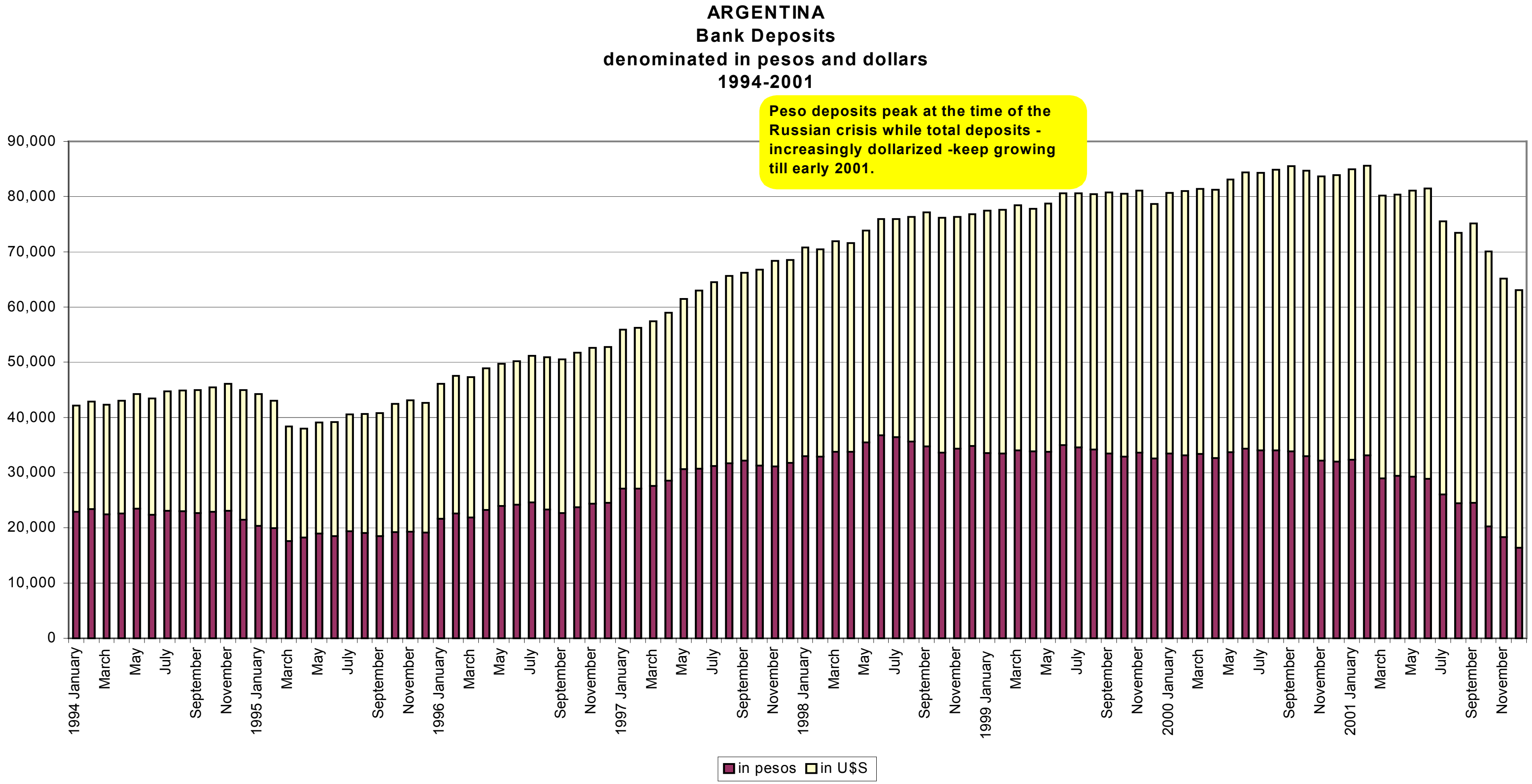
Throughout that process, as mentioned above, the increase in liquidity was huge. As may be verified in the following chart 24, bank deposits doubled between 1994 and early 2001. There was a sudden and precipitated fall at the time of the “tequila” crisis in early 1995 when deposits – total – fell 18 per cent along a period of only five months (from November 1994 to April 1995). After that brief, although serious episode, it was only in February 2001 that deposits on the whole started declining with the beginning of the first bank run of the present-day crisis. On the other hand, as depicted in the same chart, a gradually increasing proportion of deposits became denominated in foreign currency. In fact, “peso” denominated deposits started falling – in absolute terms - at the time of the Russian crisis (July-August 1998).

On the other hand, one could see in the following chart 26, that loans peaked later in 1998 and that they were much more dollarized than deposits.

That is one of the crucial imbalances in the banking system, i.e., the hidden risk in bank portfolios arising of a potential devaluation of the peso in real terms. In such circumstances the ability of bank debtors – mainly those in non-tradable sectors – to honour their foreign currency denominated debts would be at stake.

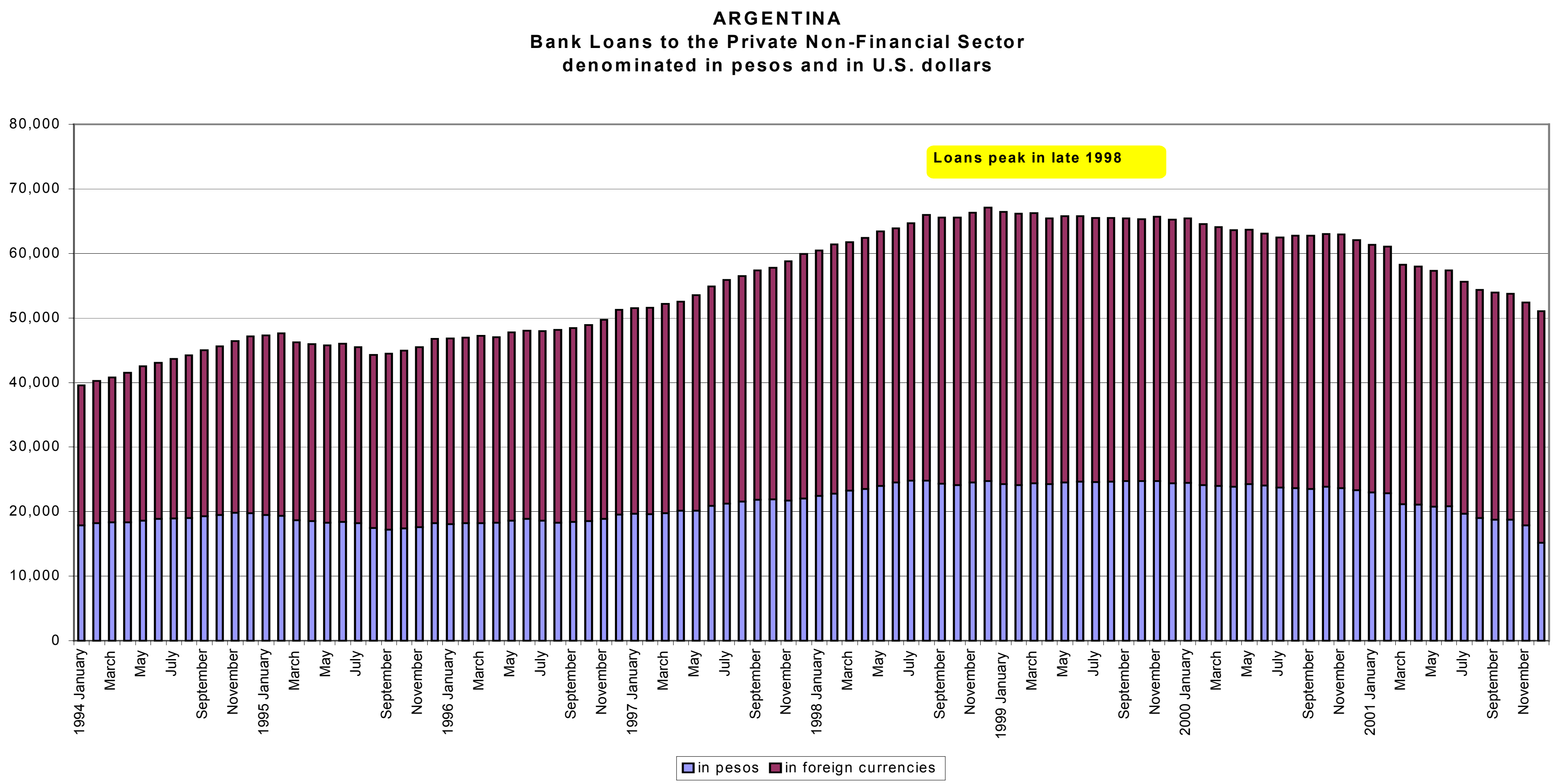
Of course, under a nominal devaluation of the local currency such an adjustment would be forced almost instantaneously. But under the deflationary adjustment to which Argentina was subject, starting in 1999, to weather the various external shocks – mainly the increasing difficulty and costs of obtaining foreign finance – the problem was already developing as may be witnessed by the increase we have seen in the proportion of noon-performing loans (also under the more general impact of recession).

Chart 25



ARGENTINA
Bank Deposits
denominated in pesos and dollars
1994-2001
Peso deposits peak at the time of the Russian crisis while total deposits - increasingly dollarized -keep growing till early 2001.
90,000
80,000
70,000
60,000
50,000
40,000
30,000
20,000
10,000
0
1994 January
March
May
July
September
November
1995 January
March
May
July
September
November
1996 January
March
May
July
September
November
1997 January
March
May
July
September
November
1998 January
March
May
July
September
November
1999 January
March
May
July
September
November
2000 January
March
May
July
September
November
2001 January
March
May
July
September
November
in pesos
in U$S

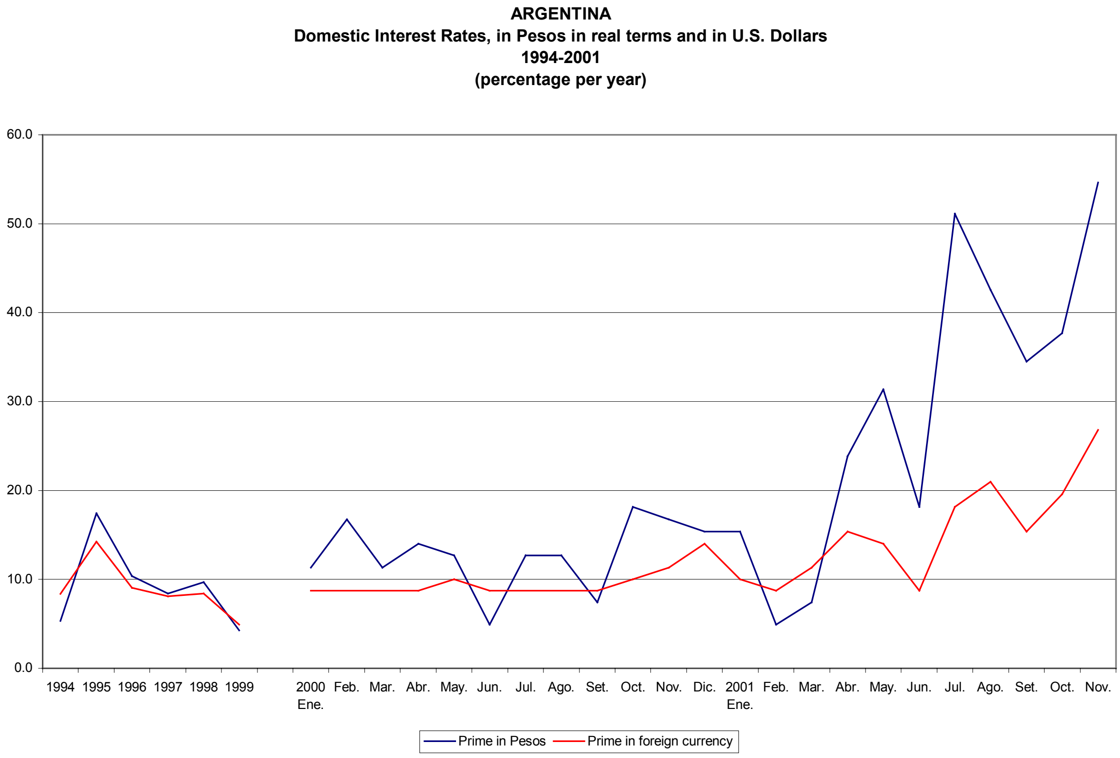
Chart 26


ARGENTINA
Bank Loans to the Private Non-Financial Sector
denominated in pesos and in U.S. dollars
Loans peak in late 1998
80,000
70,000
60,000
50,000
40,000
30,000
20,000
10,000
0
1994 January
March
May
July
September
November
1995 January
1996 January
1997 January
1998 January
1999 January
2000 January
2001 January
in pesos
in foreign currencies

The credit crunch starting in 1998 may not have been independent of the implementation of the severe regulatory environment. The experience of even the United States but most specially of many developing countries trying – for the sake of winning the goodwill of international financial media – to adopt Basel rules on capital requirements and even exceeding them, is that it results in an all around credit restriction.[28]

What is evident in the case of Argentina is that interest rates kept being high in an environment of exchange and price stability, in fact, as we have seen, under actual deflation beginning in 1999.

Chart 27



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[28] For quite a conclusive examination of this case see "The Macroeconomic Impact of Bank Capital Requirements in Emerging Economies: Past Evidence to Assess the Future" by Maria Concetta Chiuri, Giovanni Ferri and Giovanni Majnoni;The World Bank and University of Bari (Italy),May 2001.

The interplay of the imbalances and the recession; a general pattern and the Argentine idiosyncracies

The elements of the developing Argentine crisis having been depicted they could now be put together.

In fact, the Argentinian case is not very different from what has happened in other "emerging markets", although it might have been specifically dominated by some of the peculiarities of the situation.

In an environment of liberalized and significant international capital flows the pattern followed in the 1990's by more than one country may be simplistically depicted as follows. There are two phases, the first one, that of the virtuous cycle and, the second one, that of the vicious cycle, separated by some event or events that lifts the veil over the vulnerabilities building up during the first phase.[29]

During the frst phase, driven mainly by events in international markets – although also influenced by a shift to "market-friendly" policies in the developing countries – private capital starts flowing to these far away lands. Those inflows simultaneously add to demand and provide the wherewithal – in terms of foreign currency – to start an economic expansion. In an environment of growth, government revenues increase and price stability is achieved with more ease, most specifically as the easy availability of foreign finance tends to depress – viewed from the "pesos" per foreign currency ratio - the exchange rate, a crucial element of price pressures in those economies. The virtuous cycle is instituted.

But at the same time, some fragilities begin to build up. The abundant foreign exchange and low exchange rate leads – associated with a more programmatic attitude in favour of trade liberalization – to cheaper and surging imports. Foreign obligations mount as a current account deficit develops with lagging exports and soaring imports. Low international interest rates, stimulate firms to fund themselves in the international market. On top of it, local investors profit from the liberalization of capital movements and the cheap foreign exchange to diversify their portfolios and place a

[29] Such a pattern was also part of the experience of the Southern Cone economies in the late 1970's; moreover it has been a pattern endlessly repeated over, at least, more than 180 years of independent life of the Southern American republics and other parts of the world (Turkey, for instance). See, for instance, "Debt Cycles in the World Economy"; Westview Press, 1992 or Pettis, M. "The Volatility Machine"; OUP, 2001, specially Chap.4 "180 years of liquidity expansion and international lending".

significant portion of it in foreign markets (the so-called "capital flight").

Employment tends to lag behind output as substitution of capital goods for labour takes place as imported machinery becomes cheaper in terms of local wages and easy to finance. After some time, the country in question finds itself running a large current account deficit and having accumulated a sizeable external debt the service of which requires a high proportion of its normal foreign exchange earnings. Still, the international market keeps refinancing maturities so that not even interest has to be fully repaid.

Fragilities accumulate and at some point in time some event in international markets – "news" – or the sheer accumulation of those fragilities lead both international and local agents to start loosing trust in the sustainability of the process. For some authors, like Calvo or Sachs, on their side, international markets, unrelated to the "fundamentals" of any of the "emerging markets", go through a "sudden stop" (Calvo's term). Or they might be some "contagion" from crises in third countries hitting one that was up to the minute accumulating some vulnerabilities but rated OK by "the markets".

A typical situation of "multiple equilibria" develops under which a self-fulfilling run against a country might take place.

And then, the vicious cycle gets turned in. The "rationing" of capital flows and/or the increase in "country risk" spreads, results in less growth and declining government revenues. Higher interest rates and lower growth rates determine a reduced debt sustainability requiring – at high levels of indebtedness - larger and larger primary or trade supluses, to avoid an explosive increase in, respectively, public or external debt ratios to GDP. Reduced debt sustainability calculations lead to further rationing and higher interest rates. The country is forced to undergo a drastic macroeconomic adjustment. The crisis has set in.

That pattern is intimately connected with some specific characteristics of international markets and the insertion in them of developing countries. But also with the highly liberalized environment in which capital movements have been operating. The issues are well known and part of a cyclotimic debate about the International Financial Architecture, although elements of the asymmetries dominating the relations between "centre" and "periphery" hardly get enough attention.

A pattern of boom and bust in international financial flows have been a feature of those markets for easily two centuries. Minimal adjustments in portfolios in industrialized countries result in differences that relative to the size of the "emerging market" economies are decisive. Additionally, since the breakdown of the Bretton Woods arrangements, the major currencies have been fluctuating wildly forcing adjustments, again of substantial weight, on developing countries totally unrelated to their own behaviour. Financial markets tend to myopia in their attitude to long-term finance, firms in developing countries having serious difficulty in funding their expansion. Local markets, with transactions denominated in local currencies, only fund very short-run liabilities. A double mismatch, therefore, tends to develop, i.e., either a maturity mismatch between the need for long-term funding and the lack of such finance in local currency or the currency mismatch – particularly serious for the non-tradable sector firms – between revenues in local currency and indebtedness in foreign currency.

To that general pattern, Argentina, added some specific elements of its own. First, the "hard-peg" of the "peso" under which all the adjustment effort had to be placed on deflation, in its turn, under normal contemporary market circumstances, resulting in a recession even if markets showed some downward price-wage flexibility. As we have just analyzed, recession only compounds the problems that had led to the crisis. A more flexible exchange rate system might have allowed a less harsh type of adjustment allowing a faster real exchange rate devaluation and less need for a cut in domestic absorption. The fact that the "hard-peg" was implemented with the U.S. dollar, the currency of a country not sharing the same trade shocks as Argentina neither being an important customer for its exports as well as the fact that it underwent significant overvaluation in the last few years only made even more serious the principal problem.

Second, the bimonetary system under which a high proportion of assets and liabilities, even those entered with local residents, were dollarized. Such a circumstance, although explainable in terms of the monetary and banking history of Argentina, stood precisely in the way of shifting to a more flexible exchange rate system.

Third, banks were allowed to function under a fractional reserve system even for the dollarized section of their business. The country, that as a consequence of the Currency Board, already lacked a lender of last resort in "pesos" had not but partial – admittedly pretty high – resources to stand a run in dollar denominated deposits. The idea that foreign banks would provide such a safety net, we have seen was far from realities. Not to speak of the misguiding official line – that was widely accepted and led to a high degree of deposit stability confronted with minor crises – in the sense that the Currency Board provided full backing for "pesos" in circulation. And that the public, if willing, would be provided with U.S. dollars on demand, something that was only true for the monetary base leaving the fractional reserve banking system in the middle.

Those are the more basic Argentine ingredients of the contradictions, in fact, revolving around a conflict between an exchange rate arrangement that would be reasonable from a trade-real-side-of-the-economy point of view and another one that could square with financial transactions habits fed by years of inflation, currency crises and bank problems sorted out by shifting the burden on depositors.

To those elements, one could add things like "pension reform" and other measures in this matter that left the public sector without sizeable amounts of badly needed finance. The fire-sale prices at which public utilities were privatized and the entering into contracts involving tariff dollarization and even adjustment for the U. S. cost of living. Unresolved confllicts between the Federal and Provincial jurisdictions about sharing of taxes. And so on.

The crisis and present-day issues

The crisis did arrive in year 2001. Deposits, as already mentioned, fell 28 per cent between February and November that year. International reserves that had kept growing till the end of year 2000, dropped U$S 10.4 billion or 42% over the 11 month period to November 2001.

Differently from the "tequila" crisis experience, the process started back in 1998 had been mainly a crisis of the "real side" of the economy. The financial side, apparently looked solid even if dominated by all the fragilities we have examined. But still, from this point of view, the economy was on a "good equilibrium" point, admittedly achieved with forceps.

Repeated attempts at closing down fiscal deficits through tax increases and cuts in expenditures – the last heroic one labelled as the "zero-deficit" policy adopted in August 2001 – failed in regaining the financial market agents trust. But they did worsen the recession and by lowering growth prospects did deteriorate the sustainability of debt. Expenditure chasing down revenues became an almost suicidal experiment.

The second avenue that was tried at the end of 2000, that of protecting the country with a financial "shield" of a package of IFIs loans plus some less than solid commitments by private creditors to renew their lending, ended up – as in more than this case – just financing the capital flight that started in earnest in early 2001.

Still trying to avoid a reduction in public debt – restructuring is the polite word for it nowadays – some major exchange operations of government bonds were staged in mid-2001 and at the very end, right before the explosion, to postpone interest and maturities at the cost of accepting higher interest rates. The lack of an accepted mechanism to "restructure" debts like the one that Mrs. Krueger has been advocating for the future or any other one, again, explains to a great extent the reluctance to launch one such exercise. And the "international community" sanctioned such "hiding below the carpet" behaviour, providing still in August 2001, further resources from the IMF.

Faced with the run against both banks and the currency, the government chosed for the first working day in December to introduce a partial bank deposit freeze and exchange controls. It was followed by a succession of governments and early in 2002, default on public debt was announced and devaluation introduced.

The consequences were as expected. Devaluation and an IMF imposed floating of the exchange rate (previously an attempt at a fixed rate involving a devaluation of 40% had been made), led to a typical overshooting by which devaluation at some point reached 300 per cent. Recession, an almost wage and public utility tariffs freeze and some social discipline acquired in a decade of no inflation have made it for prices to increase much less, between 35 and 100 per cent depending which index – CPI or PPI – is used to measure it. One dramatic element of this matter is that food products being the major exportables, their prices have tended to rise in association with the exchange rate, hitting relatively more the lowest paid sectors of society. Not surprisingly, therfore, that as shown above poverty levels have shot up and the proportion of people below the food-poverty line has increased to a socially unacceptable level.

The impact of devaluation on the financial sector has been not less than catastrophic. In such a system the only orderly possibility would have been thoroughly to convert into “pesos” all assets and liabilities before devaluation, undoubtedly with some serious impact on the public’s trust in the banking system and consequently with a bank run that would have required some kind of freeze. On the contrary, in its inaugural speech the President announced that deposits denominated in foreign currency would be returned in the original denomination. And a few days afterward after some hesitation all bank credits were converted into pesos. The consequence of those two movements were to generate a huge loss to bank’s balance sheets that is supposed to be covered by a government bond, one additional to the already amount in default. And moreover, a move that in terms of domestic purchasing power would grant depositors – not the lowest income group of society – a subsidy to be paid, if made effective, by all and every inhabitant of the republic.

Even under the partial freeze, banks have been loosing deposits, in many cases as the consequence of court actions in defence of property rights by which dollar denominated deposits either have to be returned in this currency or in local currency at the present-day exchange rate. A reformed Central Bank that has regained the legal authority to act as lender of last resort, has been providing rediscounting up to an amount close to the whole net worth of the banking system, although individual situations differ. Most specifically, the worst hit have been some government-owned banks while some private banks have weathered the run much better. Of course a major asset in bank's balance sheets – and on those of the privatized pension system – are precisely government bonds that are not only in default but have also been "pesified". The life of those withdrawals from banks is very brief indeed. It mostly ends up in renewed purchases of foreign exchange that the Central Bank has been providing – consequently reducing with one hand what had been increased by the other – with the consequence of further reduction in reserves.

Payments to IFIs have also had a substantial impact on reserves as the Argentine government has been trying not to also default on these oblligations. Some relief has been granted mainly by the IMF as "expectations" of repayment have been postponed to the date of "obligations" of repayment.

The curious thing about the IMF is that in the Argentine case a new strategy of Private Sector Involvement (PSI) in crisis resolution is being experimented with, mainly through the device of not providing a package of support as was the habit for the previous XXIth century crises. According to the thinking now predominant inWashington, D.C - and in other high places as well – countries are supposed to obtain a "haircut" from their creditors. And one popular way to achieve that is to force it through a dearth of international public funds. So the IMF that let the agreement with Argentina to lapse back in December - on obvious grounds of non-compliance - has endlessly been going forward and backwards in conditioning a new agreement with no fresh money coming forward yet.

Private – unpesified" - external debt is also in default to a great extent as most firms, even those in tradable sectors have found it impossible to honour their service.

To make the whole story more interesting, the crisis has spilled over at least to Uruguay and to Brazil. In the case of Uruguay it is obviously direct contagion from Argentina as this country has been for decades a safe-haven for Argentine black, grey or just cautious money. The impact of the bank run in Argentina and flight to hard currencies and solid financial markets could not but hit Uruguay. This country has lost an even higher proportion of its international reserves and bank deposits and mucha faster than Argentina. An IMF sponsored rescue operation – involving sums of more than 10 per cent of Uruguayan GDP – was struck by July last.

In the case of Brazil, some obvious fragilities in its external and public debt situation have been compounded by a pre-electoral climate fed by the fact that the left-wing candidate has been way ahead in the public opinion polls. Again, a substantial IMF operation – accompanied by international banks – has been announced to the scepticism of more than one observer – and some of the international rating agencies – that look at the operation as one more “shield” à la December 2000 Argentinian or the July 1998 Russian ones.

Are we witnessing the prologue to another major regional crisis involving some big players among the “emerging markets”? For one reason or other the whole of Latin America is stagnating. And conviction about the usefulness of the “Washington Consensus” recommendations is waning away. The Argentine crisis is one more instance of the various crises to be expected or is it just a consequence of outlandish behaviour?.

Q.E.D.