FROM PARTNERSHIP TO COLLAPSE: ARGENTINA AND THE INTERNATIONAL MONETARY FUND THROUGH ECONOMIC CRISIS AND RECOVERY

By

MARY ELAINE MITCHELL WATERS

A THESIS PRESENTED TO THE GRADUATE SCHOOL
OF THE UNIVERSITY OF FLORIDA IN PARTIAL FULFILLMENT
OF THE REQUIREMENTS FOR THE DEGREE OF
MASTER OF ARTS

UNIVERSITY OF FLORIDA

2007

To my husband and family, whose encouragement and support throughout the years has made all my endeavors possible

ACKNOWLEDGMENTS

I thank the members of my thesis committee for their time, advice and guidance during the thesis process. I am particularly grateful to my supervisory committee chair, Dr. Terry McCoy for his enthusiastic support of the topic and for his constructive criticism. Dr. Ana Margheritis provided me with invaluable insight into the realities of Argentine political economy, for which I am extremely grateful. I thank Dr. Andy Naranjo for being so generous with his time and assistance.

My graduate studies at the University of Florida have been challenging and rewarding. I thank my professors, who challenged me to think critically about the issues facing Latin America in the 21st century. I also wish to thank my fellow students in the Latin American Studies department for raising the level of debate about important Latin American issues.

My academic and personal accomplishments could not have been possible without the love and support of my family. I owe a debt of gratitude to my parents, who have fostered my interest in Latin America and encouraged me to pursue my passions and my goals. Finally, I thank my husband for his unconditional love and encouragement over the years, especially during the thesis process. I could not have done this without him.

TABLE OF CONTENTS

page

APPENDIX

LIST OF TABLES

LIST OF FIGURES

Abstract of Thesis Presented to the Graduate School
of the University of Florida in Partial Fulfillment of the
Requirements for the Degree of Master of Arts

FROM PARTNERSHIP TO COLLAPSE: ARGENTINA AND THE INTERNATIONAL MONETARY FUND THROUGH ECONOMIC CRISIS AND RECOVERY

By

Mary Elaine Mitchell Waters

December 2007

Chair: Terry L. McCoy
Major: Latin American Studies

In 1991, Argentina embarked on an aggressive program of neo-liberal reform in an attempt to combat the hyperinflation, high debt accumulation and unstable currency regimes that defined much of the 1980s. The country soon became the poster child for market reform by tightening monetary policy, privatizing public enterprises and opening the economy to international trade. The initial success of the program was undeniable. Economic growth accelerated, annual inflation fell below 5% by 1994, and the country enjoyed full access to international capital flows. Throughout this period, Argentina pursued a sustained and cooperative partnership with the International Monetary Fund.

Weaknesses in Argentina's economic program surfaced in late 1998. Following a series of external shocks, a slowdown of economic growth intensified to a recession by late 1999. The rigidity of the country's fixed exchange rate system limited the authorities' ability to counteract the effects of recession. Fiscal profligacy put additional pressure on the economy as growth and productivity stalled, and Argentina became overly dependent on international borrowing to cover budget shortfalls. Following a precipitous decline in market confidence, Argentina's economy collapsed in a massive currency, banking and debt crisis in December of 2001. The fixed

exchange rate system was abandoned, resulting in the failure of the banking sector, and authorities were forced to declare the largest sovereign default in history.

Following Argentina's collapse, the International Monetary Fund faced accusations that it was primarily responsible for the severity of the crisis. This thesis argues that the IMF was often too lenient with authorities' repeated failures to meet fiscal targets in the pre-crisis period. Furthermore, the Fund made an egregious error when it approved an $8 billion disbursement to Argentina in September, 2001, as the decision accelerated capital flight and failed to avert the crisis. However, while the IMF may have erred in its approach to Argentina, the institution cannot be held solely responsible for the country's collapse. This work shows that a number of factors contributed to the crisis, many of which fell outside the control of the IMF. These factors include, but are not limited to exogenous shocks, inattention to fiscal discipline, the rigidities of the exchange rate system, an unsustainable debt level and a perverse loss of market confidence.

In the wake of the worst economic crisis in national history, Argentina has rejected the neo-liberal model that it embraced during the 1990s in favor of a program that balances economic growth with social progress. So far, the decision has been a favorable one. Argentina is enjoying its fifth consecutive year of strong macroeconomic performance, and economic indicators are at their highest levels in more than a century. However, the country's economic future is far from certain. The business and investment climates remain less than favorable. Furthermore, overt government intervention in the economy and the widespread use of price controls are reminiscent of the failed price manipulation policies of the past. Rising consumer prices and an inflation data-reporting scandal suggest that Argentina's economy is not as healthy as it appears. It is too soon to determine if Argentina's economy is on a new progressive path or whether authorities will repeat the mistaken policies of the past.

CHAPTER 1
INTRODUCTION

In December of 2001, Argentina's economy came apart at the seams. Following nearly three years of recession, rising unemployment and mounting discontent among Argentine citizens, Latin America's third largest economy finally cracked. By early January of 2002, Argentina had dismantled its currency regime, defaulted on nearly $95 billion in debt, frozen bank accounts and witnessed the rapid succession of five presidents in ten days. The economy was in shambles – GDP growth had contracted more than twenty percent since 1999 (IMF Statistics, 2003). The situation was without question the most traumatic economic collapse in Argentina's history, and arguably one of the worst on record in Latin America. Yet unlike the economic crises of Argentina's past, caused by lax monetary policy, government regulation or inefficient trade policy, the crisis of 2001 occurred amid unprecedented policy reforms under the watchful eye of the International Monetary Fund (hereafter referred to as the IMF or the Fund).

Argentina embarked on a series of comprehensive policy reforms in 1991 in an effort to combat the hyperinflation, unstable currency regimes and high debt accumulation that defined much of the 1980s. Argentina sought financial assistance from the IMF in order to carry out the policy changes. The country became the poster child for market reform by tightening monetary policy, privatizing public utilities and opening the economy to international trade. Throughout the 1990s, Argentina fostered a close relationship with the IMF, which gave the country high marks for its reforms. In October of 1998, Argentina's President Carlos Menem spoke before the Board of Governors of the International Monetary Fund and the World Bank Group touting the success and permanence of Argentina's reforms. The strength of the economy, Menem argued, proved that the new policies were successful and he urged other emerging economies to follow Argentina's lead.

By the end of the decade, however, the economy was starting to lag and Fund support became necessary to prop up the policy reforms. By the middle of 2001, it became clear that Argentina could no longer avoid a crisis, but the Fund kept lending. By September of 2001 the IMF had given Argentina more than $22 billion (Independent Evaluation Office, 2004), though this amount proved insufficient to save the economy from collapse. It was not until December of 2001 that the IMF refused to extend further financial assistance to the country. The economy crashed less than three weeks later.

In order to avoid a similar economic crisis in the future, it is necessary to understand what went wrong in Argentina.[1] The severity of the Argentine case offers important lessons for emerging economies and international financial institutions alike. Prior to 2001, Argentine policymakers believed that partnership with the IMF would shield the nation from economic turmoil. Now many believe that adherence to IMF policies precipitated the crisis (Kirchner, 2005). This sentiment is echoed by scholars that question the effectiveness of IMF policies in preventing, or even managing, economic crises. In the years since Argentina's collapse, national opinion has turned against the IMF, leading authorities to sever ties with the Fund and pay back the nearly $10 billion debt three years early (BBC News, 2005). Argentina's leaders have made clear that the country seeks no further relationship with the IMF. This thesis examines the 2001 economic crisis in Argentina, with specific focus on the nation's relationship with the International Monetary Fund from 1991 to the present.

[1] Although the collapse in Argentina was primarily an economic phenomenon, there were very real social and political implications. The contraction of the economy forced substantial reductions in social welfare. Rising unemployment and poverty led to widespread protests and civil unrest as the crisis unfolded. The situation intensified after the collapse of the banking system: many Argentines lost their savings, and more than half the population fell below the poverty line by 2002.

Problem Statement-Research Question

Economic upheaval is not a new phenomenon in Argentina. The country experienced a number of economic downturns in the 1970s and 80s, about which much has already been written. A number of common themes link the previous crises; poor fiscal policy, weak economic planning, price controls, money creation and hyperinflation (see Boughton, 2001). The 2001 crisis did not develop overnight, nor was it the result of a single faulty policy or an isolated external shock. Several factors, including but not limited to domestic economic policies, adverse international shocks, unsustainable debt accumulation and IMF structural adjustments played a role in the severity of the country's crisis. Given that a variety of factors influenced the breakdown of Argentina's economy, it is difficult to assess which policies were the most detrimental. This thesis seeks to clarify the underlying causes of Argentina's collapse.

A number of publications have examined the role of domestic policies in fostering the crisis (Barajas et al, 2006; Fanelli, 2003; Pastor and Wise, 2001). Some scholars see the events of 2001 as a "reflection of what Argentina did or did not do" (Mussa, 2002: 67). Teijeiro (2001) points to Argentine fiscal profligacy as a major contributor to the crisis. Other scholars argue that the currency board, although politically popular and effective in the short-term, tied authorities' hands to properly combat recession and collapse (Independent Evaluation Office, 2004; Pastor and Wise, 2001).

The role of the IMF in Argentina has also received substantial attention from scholars. The IMF's ability to manage economic crises has come under increasing scrutiny since 2001, and strong debate has emerged regarding the role of the IMF in exacerbating Argentina's economic woes (Stiglitz, 2000, 2002, 2003; Blustein, 2005). Critics claim that IMF-sponsored structural reforms and contractionary policies caused the crisis to occur.[2] In the years since 2001, Argentines – particularly current President Néstor Kirchner – have been vocal in their accusations that the IMF was primarily responsible for the crisis (Kirchner, 2005). Defenders of the Fund insist that the institution does not impose policies and that national authorities are ultimately responsible for economic programs (Mussa, 2002). Did IMF policies exacerbate the crisis? The fundamental aim of this thesis is to address critics' accusations and determine if claims that the IMF caused the Argentine crisis are warranted.

Literature Review

In recent years, there has been a growing interest in Argentina's economic history. Scholars from a variety of disciplines have examined the complexities of Argentina's economic development including economists, historians, political scientists and sociologists (della Paolera and Taylor, 2003: 10). Since the debt crisis of the 1980s, there has been a noticeable increase in the English literature dedicated to Argentina's tumultuous economic history.[3] Until the early 1980s, however, general scholarship on Argentine economics was sporadic, and it can be argued that a void still exists in the literature to the extent that comprehensive studies of the country's economic history are few and far between. Although a number of studies have documented specific facets of Argentina's economic policy throughout history (see Williams, 1962; Ford, 1962; Ferrer, 1967), the first comprehensive examination of Argentine economic history was not published until 1970, when Carlos Díaz Alejandro published his *Essays on the Economic History of the Argentine Republic* (della Paolera and Taylor, 2003: 9). Laura Randall's *An Economic*

[2] Some critics argue more broadly that IMF policies in general are a catalyst for the destabilization of developing economies (see MacEwan, 2002, Hayami, 2003).
[3] There is substantial literature in Spanish dedicated to Argentine economic history (Mario Rapoport's *História Económica, Política y Social de la Argentina 1880-2000* is particularly comprehensive). Raúl Prebisch published a number of works on the subject, and Carlos Díaz Alejandro and Roberto Cortés Conde have also written extensively on Argentina.

History of Argentina in the Twentieth Century was published just eight years later. Other authors have explored the dynamics of Argentina's economy within larger regional studies on Latin American economics. Bulmer-Thomas offers a particularly detailed analysis of the Argentine experience within his *Economic History of Latin America Since Independence* (2003).

However, it was not until 2003 that economic historians turned their attention back to the specific case of Argentina. *A New Economic History of Argentina*, edited by Gerardo della Paolera and Alan Taylor (2003), is the most recent addition to the literature, and is similar in style to Díaz Alejandro's original work. The central goal of della Paolera and Taylor's publication is to give insight into what the authors refer to as "the Argentine puzzle" (della Paolera and Taylor, 2003: 2). "The Argentine puzzle" aptly describes the country's unique and uneven pattern of development since independence. Although the country has struggled economically over the past sixty years, at the time of independence Argentina seemed poised to excel in the international economy. It is estimated that in 1820, Argentina boasted per capita income of 102 percent of the level in the United States (della Paolera and Taylor, 2003: 2). In the 1900s, Argentina was considered rich, especially in comparison to its Latin American neighbors, and by 1913 Argentina was widely considered an advanced country. It seemed likely that the country would achieve full economic development by the 1950s if it could stay on track, but that goal was never achieved. The World Wars took a heavy toll on Argentina's international trade, and the nation retreated into autarky (Bulmer-Thomas, 2003). As the decades passed, institutional volatility hampered the country's economy and Argentina fell farther behind (della Paolera and Taylor, 2003: 11).

By the 1980s, Argentina's economy was in freefall. At the start of the decade, the country "received the dubious distinction of being named [one] of the most imperiled debtor countries in the world" behind Mexico and Brazil (Stiles, 1987: 57). Not surprisingly, the poor economic situation sparked a growing interest in Argentina, and there was an expansion of literature during this period. Economists poured over Argentina's fiscal and monetary policies, focusing their attention on exchange rates, hyperinflation and debt accumulation (see Heymann, 1987 and Kiguel, 1989) (de Beaufort Wijnholds, 2003: 102). Economists were not the only scholars interested in Argentina at that time. The end of military dictatorship in 1983 left the country with a fragile democracy and a tenuous economy that drew the attention of political economists (see Remmer, 1991; Smith, 1989).

Since 2001, a new wave of literature dedicated to Argentina's collapse has emerged. A number of economic studies were published in the immediate aftermath of the collapse of convertibility and the declaration of sovereign default. Additionally, the social and political ramifications of Argentina's collapse fostered several of works dedicated to the sociological and political economy dimensions of the crisis (see Munck, 2001; Levitsky and Murillo, 2003). Political considerations in the Argentine case have received substantial attention. Corrales (2002), for example, states that weakness of political leadership was an important contributing factor to the crisis. Specifically, he argues that the Alianza government which took power in 1999 was "technocratically unprepared to govern" (Corrales, 2002: 34-35). Not surprisingly, however, the vast majority of the literature is dedicated to examinations of specific economic policies that precipitated the crisis. Unchecked fiscal spending at the municipal and national levels and the exchange rate regime are both factors that have been widely analyzed by economists (see Teijeiro, 2001; Powell, 2002; Ciblis and Vuolo, 2005). Argentina's partnership with the IMF is another topic that has received attention from scholars.

There is an extensive body of literature dedicated to the International Monetary Fund, ranging from the organization's structure and mandate to conditionality of IMF loan programs. Most notably, four comprehensive histories have been published since 1965 at the request of the Fund itself. Horsefield published the first history of the institution in 1965 to commemorate the twentieth anniversary of Bretton Woods (Boughton, 2001). Updates to the history were conducted by de Vries in 1976 and again in 1985 as the role of the IMF was expanding to meet the needs of economies in crisis (Boughton, 2001: xvi). In 2001, Boughton published the fourth volume which tackled the troubled period 1979 to 1989. Boughton's work is of great importance to this thesis because it documents the troubled relationship between the IMF and Argentina throughout the 1980s as the authorities were struggling to save the country from the debt crisis. By analyzing internal IMF documents, Boughton is able to assess the economic turmoil within Argentina and the efforts of IMF staff to save the economy. What he finds is a constant struggle between the economic necessities required by the IMF (such as reducing the fiscal deficit) and the political realities of Argentina at the time (Boughton, 2001: 331). While the restoration of fiscal discipline was the cornerstone of the IMF program, the authorities in Argentina argued that such austerity was not politically feasible. As a result, IMF programs were difficult to maintain, as evidenced by the near-breakdown of IMF arrangements in 1983, 1985 at the end of the Austral Plan, and again in 1989 as the fiscal deficit approached four percent of GDP (Boughton, 2001: 524). Argentina's relationship with the IMF throughout the 1980s was strained at best.

Recent studies dedicated to the partnership between Argentina and the IMF question the appropriateness of IMF-sponsored austerity during the country's recession. These studies are connected to a broader debate about whether the Fund's overarching insistence on fiscal responsibility and contractionary policy is appropriate for emerging economies facing economic crisis. The IMF is governed by the Articles of Agreement established at Bretton Woods in 1945. Article Five of the Agreement states that a fundamental role of the IMF is to “give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments *without resorting to measures destructive of national or international prosperity*” (see Appendix A). Critics of the Fund stress that the austere spending constraints drawn into many IMF agreements constitute ‘measures destructive of national prosperity’ because they often fail to stabilize economic conditions and “arguably make matters worse” (Stiglitz, 2003).[4] In times of economic crisis, critics argue that the IMF’s insistence on fiscal austerity is destructive (because it leads to a pro-cyclical deepening of economic contraction) and contrary to the wisdom of traditional economic theory.[5] They cite the East Asian and Argentine crises as sad examples of the failure associated with the IMF’s persistent dedication to fiscal austerity (Stiglitz, 2000, 2003; MacEwan, 2002).

Mussa attributes criticism of IMF policies to “a fundamental tension between the two key roles that the Fund is expected to play in the international economic system” (Mussa, 2002: 67). On the one hand, he argues, the Fund is expected to act as a “friendly social worker” offering guidance about economic policies and providing financial assistance when an economy becomes unsustainable (Mussa, 2002: 68). On the other hand, the IMF also plays the role of “tough cop,” requiring nations to fix problem policies and ensuring that international creditors are paid in the case of default.

---

[4] A related argument by critics is that the severity of adjustments required by the IMF is anathema to economic growth (Stiglitz, 2003; MacEwan, 2002). IMF proponents counter that tight monetary policy and fiscal austerity are necessary conditions to stabilize and strengthen emerging economies in the long run (see Krueger, 2004).

[5] Joseph Stiglitz -- a vocal critic of IMF austerity measures -- argues that in the midst of recession counter-cyclical deficit spending is the only way to restore economic growth (see Stiglitz, 2002).

Not surprisingly, critics charge that the IMF too often adopts the role of tough cop, requiring countries to adopt strict economic adjustments even when recession and collapse are imminent (Stiglitz, 2003). Mussa and other IMF insiders counter that the Fund is often lenient with borrowers because it is “the tendency of the Fund to give the benefit of the doubt, sometimes the overwhelming benefit of the doubt, to the member” (Mussa, 2002: 69). He argues that in the specific case of Argentina the IMF was certainly the friendly social worker, and the Argentine authorities were fully responsible for policy implementation. However, there is general agreement that mistakes were made in the Argentine case. A number of publications produced by the Fund detail the errors made by IMF staff during the course of Argentina’s relationship with the organization (Mussa, 2002; de Beaufort Wijnholds, 2003; Independent Evaluation Office, 2004). In general, these publications find that the IMF did err in its dealings with Argentina, and they offer lessons that can be learned to improve the Fund’s behavior and accountability in future agreements.

The perceived failures of the IMF in Argentina have generated an extensive literature in the past six years, which complements other academic research assessing the domestic causes of the nation’s crisis. Attention to specific policy failures during the crisis is extensive, but works addressing the full scope of what occurred in Argentina are lacking. Additionally, there is an absence of scholarly literature dedicated to recent developments in Argentina’s economy. The authorities’ rejection of the ‘neo-liberal’ development model is an important topic of future research, as are studies of the medium and long-term effects of severing ties with the International Monetary Fund.

Approach

This thesis is a case study of the Argentine economic crisis of 2001. The severity of Argentina's situation, coupled with the controversy surrounding the management of the crisis make this case particularly important. Many scholars regard Argentina's collapse as one of Latin America's most serious economic crises (Caballero and Dornbusch, 2002; Stiglitz, 2002; Mussa, 2002). In order to understand why the crisis was so severe and what can be done to avert similar crises in the future, there is a distinct need to define what happened in Argentina in 2001. The literature identifies several factors which may have contributed to the severity of the crisis. This thesis seeks to clarify the fundamental causes of collapse.

Analysis of the crisis would be incomplete without close examination of the relationship between the International Monetary Fund and the Argentine authorities prior to and directly following the crisis. Close cooperation between Argentina and the IMF, which began in 1991 and continued throughout the crisis, proved insufficient to deter or lessen the severity of the country's collapse. This fact has generated substantial debate among scholars who support or criticize IMF-style economic reform in emerging economies. The debate surrounding the culpability of IMF policies in contributing to Argentina's economic crisis will be assessed in the course of this thesis.

This thesis utilizes primary documents from the International Monetary Fund and the Ministry of Economy and Production of Argentina. Primary sources are necessary to establish the basis of the relationship between Argentina and the Fund, and to detail the breakdown of the relationship as it unfolded after 2003. Supplemental sources from scholarly publications in various disciplines will aid in the understanding of how the crisis took root. This thesis also utilizes articles from international financial publications and Argentine news organizations to analyze the current dynamics of Argentina's economy.

Significance and Organization

A clear understanding of the events that led to Argentina's financial crisis is important for several reasons. Primarily, a thorough understanding of Argentina's collapse is necessary in order to help prevent future crises. Research suggests that a number of interrelated factors contributed to the severity of Argentina's crisis. Specific economic policies undertaken by the national authorities as well as unanticipated international shocks led to recession and an adverse economic situation, but it is clear that no single factor was responsible for the collapse. Additionally, there are substantial political and social ramifications to consider in a crisis as severe as Argentina's. Unemployment rates, poverty and indigence levels all surged following Argentina's collapse (International Monetary Fund, 2006). Given the intricate social dimensions of economic collapse, it is important to understand the dynamics of the crisis in order to prevent similar events elsewhere in the developing world.

A detailed examination of the IMF's role during Argentina's crisis also holds significance. One fundamental purpose of IMF surveillance is to prevent large-scale economic crises from occurring. The authorities in Argentina believed that partnership with the IMF would shield the country from economic turmoil. Unfortunately, that was not the case. Argentina's economic failure in 2001 therefore offers important lessons for the IMF. A broad body of literature has focused on the role that the International Monetary Fund played in exacerbating Argentina's crisis. Addressing the issue of IMF culpability is the fundamental aim of this thesis. For the IMF, there are important lessons to be learned from the failure of Argentina (Mussa, 2002; Independent Evaluation Office, 2004). Calls for reform, stemming from criticism of the Fund’s actions in Argentina, may prompt the institution to reevaluate its approach to economic policy.

This work begins by examining the evolution of the International Monetary Fund since its inception in 1945. The aim is to describe the bureaucratic structure and detail the fundamental purposes of the IMF, as established in the Articles of Agreement. This work also examines Argentina’s economic history during the 1970s and 80s in the context of a sustained, and often antagonistic, relationship with the IMF. Argentina’s renewed dedication to market-friendly reforms in the early 1990s, highlighted by the country’s convertibility plan, will also be analyzed.

The third chapter of this thesis details the chronology of events leading up to Argentina’s crisis. At the end of 1998, Argentina’s economy had contracted, but authorities believed that recovery was possible. By the middle of 2001, however, it was apparent that the country was headed for disaster. This work examines the various economic policies implemented by Argentina between 1998 and 2001 in an attempt to stave off collapse, and analyzes the fundamental factors that contributed to the crisis, including the convertibility regime, fiscal policy and debt sustainability. The topic of IMF culpability in the crisis is also fully addressed. The thesis continues with a complete discussion of Argentina’s recovery after 2001, including the renegotiation and subsequent cancellation of the country’s final IMF agreement, and analysis of the controversial debt restructuring in 2005.

This work concludes with an assessment of the future prospects for Argentina’s economy. On the surface, the economy has fully rebounded since 2002. GDP growth is strong, inflation is manageable and poverty and unemployment rates have dropped steadily since 2003. Argentina’s credit rating is also slowly improving since the country emerged from default in

2005. However, there are signs that the economy is not as stable as it appears. Overt government intervention in the economy is a troublesome development, as is the persistence of extensive government spending. Rising consumer prices and an inflation-reporting scandal have some analysts worried that a new inflationary crisis is looming. These developments hold important implications for business environment, and will be addressed in the final section of this thesis.

CHAPTER 2
ARGENTINA AND THE INTERNATIONAL MONETARY FUND, 1978-1998

Introduction

Argentina's economic performance throughout much of the twentieth century was erratic. Although the country enjoyed strong economic growth and a promising future at the start of the century, its stable economy faltered in the post-war period and failed to recover over the subsequent decades. Economic performance during the debt crisis proved to be especially troubled: from the late 1970s until early 1991, the country struggled with fiscal imbalances, unsustainable debt levels and occasional bouts of hyperinflation. Inflationary stop and go cycles severely hurt economic productivity and caused citizens to lose confidence in the economic system (Kiguel, 1989). Policymakers developed a variety of programs to stabilize the economy, ranging from the exchange rate "*tablita*" established by Economic Minister Martínez de Hoz in 1978, to the Austral Plan in 1985 and the 'Bunge y Born' program adopted by Carlos Menem in late 1989. Each of these programs shared important heterodox characteristics, including the frequent use of price and wage controls and the manipulation of exchange rate regimes to restore economic credibility. Responsible fiscal management was notably lacking from many of the programs of the 1980s (Kiguel, 1989; Kiguel and Liviatan, 1990; Boughton, 2001). The Bunge y Born plan did achieve a small degree of success through fiscal responsibility and cuts in public expenditures.[1] However, none of the programs succeeded in bringing lasting stability to Argentina's economy. Repeated attempts to liberalize the economy in the 1980s (through the privatization of state owned enterprises, for example) were equally unsuccessful (see Corrales, 1998). The Convertibility Plan, initiated in 1991, became the first economic program in more than a decade to spur growth and restore credibility in Argentina. As this chapter will

[1] Beckerman credits the Bunge y Born plan with laying the foundations for the success of the Convertibility Plan in 1991 (Beckerman, 1995: 674).

demonstrate, the depth and breadth of the Convertibility reforms were impressive given the poor performance of Argentina's economy over the previous decade.

The debt crisis of the 1980s took a heavy toll on the global financial system and hit emerging economies like Argentina's particularly hard. At the onset of the debt crisis, Argentina was widely considered "one of the most imperiled debtor countries in the world" (Beckerman, 1995: 57). As such, the country had a sustained relationship with the IMF during the 1970s and 1980s. It was during this period that the IMF became a high profile figure in the international economy, charged with restoring solvency to the economic system (Boughton, 2001).[2] As one of the most heavily indebted nations in Latin America, Argentina had a sustained relationship with the IMF during the 1970s and 80s. However, frequent disagreements about the content and scope of economic reforms created a contentious relationship between Argentina and the Fund. The IMF routinely pushed for greater fiscal responsibility as the authorities increasingly turned away from orthodox measures to stabilize the economy (Kiguel, 1989; Boughton, 2001). One at least three occasions during the 1980s, differences of opinion caused the postponement or cancellation of IMF Stand-by Arrangements (SBAs) (Boughton, 2001). It was not until the early 1990s, as Argentina broke away from its troubled economic past, that the nation's relationship with the IMF improved. By the mid-1990s, the Fund applauded Argentina as a paragon of economic reform (Hayami, 2003: 44).

This chapter examines the history of Argentina's economic policies from 1978 until 1998, with specific attention to the country's relationship with the IMF. The first section will address the evolution of the IMF as an institution prior to the Latin American debt crisis. A shift

[2] IMF scholars have analyzed the institutions' dual role as "coordinator and bill collector for the private banks, as well as an advocate for the debtor nations" during the debt crisis (Stiles, 1987: 55). Critics argue that the Fund's allegiance to creditor members often overshadowed its commitment to debtor nations in crisis (Stiles, 1987; Amuzegar, 1986).

in institutional priorities, from monetary observer to financial crisis manager, altered the role of the Fund in dealing with crisis economies. This shift necessarily had an impact on the institution's relationship with Argentina in the 1980s. The second section will analyze Argentina's unsuccessful stabilization policies from the period 1978 to 1991. The unconventional nature of Argentina's economic programs, including the use of price controls and exchange rate manipulation, will be discussed in detail. This section will also address the authorities' combative relationship with the IMF and private creditors, as Argentina's debt dynamics became unmanageable (Stiles, 1987). The final section examines the first seven years of the Convertibility Plan between 1991 and the end of 1998, highlighting the program's success at restoring stability and credibility to Argentina's economy.

The Evolving Role of the IMF in the Global Economy

The International Monetary Fund was established at Bretton Woods following World War II. The founders envisioned the institution primarily as a monetary agency, charged with monitoring the balance of payments and monetary stability of the global financial system. The original purpose of the IMF was to act as a regulator of international monetary agreements, and ensure the fluidity of the international economy. As a post-war institution, the central focus of the IMF was to serve the needs of developed countries in Europe.[3] However, as the challenges to the global economy increased, the institutional role of the IMF evolved. In the years immediately preceding the debt crisis, the purpose and functions of the IMF changed substantially. The Articles of Agreement, which formally define the purpose and mission of the

[3] Membership in the IMF was originally limited to those countries that had participated in the United Nations Monetary and Financial Conference in 1945. Subsequent membership was available to any country that submitted an application to the Fund's Executive Board of Directors. Voting rights and lending quotas are determined by the Executive Board upon approval of membership. Currently, 185 countries are members of the Fund. Argentina joined in 1956.

IMF, were amended in 1976 to reflect changes in the international economy.[4] The revisions successfully shifted the focus of the Fund away from regulatory functions toward the role of provider of financial assistance to member nations in crisis, specifically developing countries (Dell, 1986: 1211).[5]

The amended Articles of Agreement establish six fundamental purposes for the Fund:

(i) To promote international monetary cooperation and provide the machinery for consultation and collaboration on international monetary problems;
(ii) To facilitate the expansion and balanced growth of international trade;
(iii) To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation;
(iv) To assist in the establishment of a multilateral system of payments;
(v) To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, providing them with the opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity;
(vi) To shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members (Articles of Agreement, IMF website).

In addition to expanding the scope of the institution's monitoring capacity, the amendments also granted the IMF a more 'hands-on' role in the international economy. One of the most important amendments was the establishment of IMF surveillance duties, particularly relating to a country's exchange rate regime (Boughton, 2001: 67-68). Article IV, section 3(b) of the Articles calls upon the IMF to "exercise firm surveillance over the exchange rate policies of members, and to adopt specific principles for the guidance of all member with respect to those policies" (International Monetary Fund website). The use of the term "surveillance" prompted strong debate both within the Fund and in the larger economic community. Critics argued that IMF 'surveillance' was tantamount to dictating the exchange rate policies of developing countries (see Dell, 1986; Boughton, 2001). IMF analysts, on the other hand, argued that the term was much

[4] Selected Articles of Agreement are included in Appendix A.
[5] For criticism of the IMF's perceived shift away from the needs of developed countries toward developing economies in crisis, see Amuzegar, 1986 and Dell, 1986.

more benign, consisting of "consultations with each member country on exchange rate and macroeconomic policies and of the policy requirements for achieving a stable system of exchange rates" (Boughton, 2001: 68).

The revised Articles of Agreement called upon the IMF to offer policy advice about the implementation of stable exchange regimes (and other macroeconomic disequilibria), and to provide financial assistance to developing nations in pursuit of that goal, as needed.[6] The institution's new surveillance mandate came with relatively limited enforcement powers. IMF Directors were aware of the need to address this shortcoming:

> The 1980s became a decade of experimentation, in which the staff and management of the Fund constantly probed and prodded to see how far they could go in persuading countries to respond positively to Fund analysis and advice (Boughton, 2001: 69).

Conditionality became the strongest tool in the Fund's arsenal to convince nations to heed its economic policy advice. Conditionality has been, and continues to be, a controversial topic in the literature.[7] IMF insiders argue that conditionality is a necessary measure for any financial institution extending loans to members. Former IMF Managing Director Jacques de Larosiére addressed this point plainly in remarks to the Canadian Senate Committee on Foreign Affairs in 1986:

> the major function of the IMF is to be what we call an agent of adjustment in the system, which means that we are an institution that has the function to ask its member countries, especially those who are borrowing from the IMF, to adjust their domestic policies in a

[6] The IMF offers several forms of financial assistance to members (refer to Appendix B). The Poverty Reduction and Growth Facility (PRGF) is available to low-income countries requiring assistance with poverty-reduction initiatives. Stand-By Arrangements (SBAs) are short-term financing programs, generally 12 to 14 months in duration, that help countries address *temporary* balance of payments disequilibria. Members facing long-term balance of payments problems requiring economic reform are eligible for Extended Fund Facilities (EFFs). During periods of economic crisis, the Fund may provide large-scale, short-term financing under the Supplemental Reserve Facility (SRF). Because of their size, SRF disbursements often involve an interest rate surcharge. Finally, the Compensatory Financing Facility (CFF) is limited to countries facing sudden shortfalls in export earnings or a rapid increase in the cost of cereal imports. All financing arrangements are denominated in Special Drawing Rights (SDRs) – an international reserve asset based on a basket of specific international currencies – and proportional to a member's lending quota.

[7] See Amuzegar, 1986; Stiglitz, 2002 and 2003; MacEwan, 2002. The issue of IMF conditionality as a cause of Argentina's 2001 crisis will be discussed in Chapter Four.

> way that will restore balance of payments visibility….In other words we are a financial institution that lends moneys on its capital, but we lend those moneys with conditions (Dell, 1986: 1210).

While the issue of conditionality seemed reasonable from the IMF standpoint, the practice often faced resistance from countries seeking financial assistance. This was certainly the case with Argentina for much of the 1980s. In general, the 1980s proved to be a tumultuous decade for the IMF, as the institution adjusted to its new functions and struggled to keep members solvent during the debt crisis. The Fund came to be seen as "the world's master economic trouble shooter," even as some critics argued that the Fund had "neither adequate expertise nor sufficient resources" to address the global debt crisis (Amuzegar, 1986: 98). However, this did not stop troubled economies from asking the IMF for help. Argentina frequently approached the IMF for assistance to deal with the poor economic situation and high external debt. Between 1983 and 1989, Argentina negotiated four separate stand-by arrangements with the IMF. However, differences of opinion about economic policies, and an increasingly confrontational relationship with the Fund caused several agreements to fall through. The 1980s proved to be a difficult decade, both for Argentina and for the Fund.

Argentine Economic Policy and the Debt Crisis

In Argentina, decades of political populism, inward-looking trade policy and deteriorating terms of trade destabilized the country's economic situation (Stiles, 1987: 57). Excessive over-lending by the industrialized countries exacerbated the problem. From the period 1975 until 1990, the country struggled with inflation, a stagnant economy and a high debt burden. There were also acute economic crises in 1982 and 1989, as well as two hyperinflationary episodes in 1989 and 1990 (Independent Evaluation Office, 2004: 78).

The Military Regime

The roots of Argentina's debt crisis began in the mid-1970s. In 1976, a military coup overthrew the government of Isabel Perón in an attempt to stabilize the country and restore economic credibility. At the time of the coup, economic productivity was stagnant and inflation was approaching 500 percent a year. Although inflation was the acute problem in Argentina's economy, the country faced at least six chronic economic problems in the 1970s:

> 1) "excessive dependence on unreliable international commodity markets; 2) similarly excessive reliance on foreign capital; 3) ineffective government intervention in domestic markets; 4) antiquated industry and technological stagnation in agriculture; 5) a highly mobilized labor movement; and 6) a bloated public sector, featuring high levels of deficit spending" (Stiles, 1987: 58).

The military's economic team believed that a fundamental overhaul of the country's political economy was warranted. There was a perceived need for a "sharp rupture" with past economic policies to make way for a "capitalist revolution" (Smith, 1989: 231). Economic minister José Martínez de Hoz advocated Argentina's reinsertion into the world economy according to the principles of comparative advantage.[8] The government embarked on a comprehensive reform effort in late 1976. The program, termed by Stiles as a liberalization-cum-austerity package, aimed to decrease inflation, slow the growth of the money supply, and liberalize the economy (Stiles, 1987: 58). The program focused on seven orthodox stabilization measures: a reduction of real wages, the elimination of agricultural export taxes, a gradual reduction in import tariffs, the abolition of subsidies for non-traditional manufactured goods, financial sector reform, an increase in public-sector prices, and the reduction of state activities[9] (Smith, 1989: 235). The

[8] According to Smith, the rationale for opening Argentina's economy was that "only be making the economy more internationally competitive could the conditions be created for a more stable and dynamic model of accumulation, thereby eventually eliminating the deeply rooted causes of Argentina's slow growth and periodic crisis" (1989: 235).

[9] This final point implied the privatization of inefficient state-owned enterprises and austere reductions in social spending (Smith, 1989: 235).

plan was aggressive, but failed to produce sustained results (annual inflation reached 175 percent by the end of 1978).

In December of 1978, Martínez de Hoz announced a new exchange rate policy aimed at curbing inflation. The country's new crawling exchange peg featured an overvalued, but steadily depreciating currency. Depreciation levels were pre-printed in official currency tables, or *tablitas*, giving the plan its name. Even though the overvalued exchange rate would initially favor imports over exports, authorities hoped the plan would eventually bring domestic prices in-line with international levels (Stiles, 1987: 58). To assist with the stabilization effort, the military regime approached the IMF to negotiate a stand-by arrangement. However, foreign borrowing ultimately permitted Argentina to forego IMF assistance (Boughton, 2001: 327). While this initially seemed like a victory for Argentina, the nation's exponential increase in external debt over the following years would soon prove disastrous (Figure 2-1).

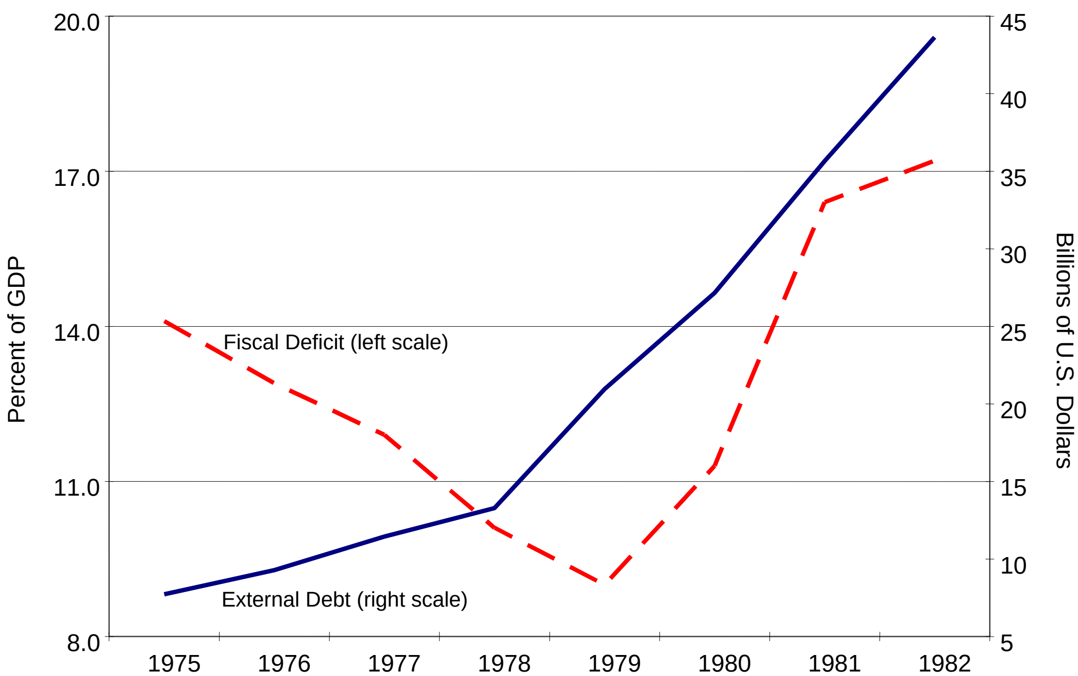

Figure 2-1. Fiscal Deficit and External Debt 1975-1982. International Monetary Fund; Calvo, 1986.

Initially, the *tablita* did succeed in bringing inflation down to more manageable levels: annual inflation was roughly 100 percent in 1980, down from 175 percent in 1978 (IMF statistics). Unfortunately, the success did not last. The overvalued exchange rate made Argentine exporters less competitive in international markets and economic productivity stalled. Furthermore, the lack of export earnings worsened the fiscal deficit and forced Argentina to become increasingly dependent on international borrowing to cover budget shortfalls (Boughton, 2001: 328). In early 1981, a change of leadership within the military junta (and the economic team) resulted in the partial neglect of Argentina's exchange rate policy. This generated sustained market speculation about a substantial devaluation of the peso and the breakdown of the *tablita* system (Boughton, 2001). The new economic team announced a 10 percent currency devaluation in February, hoping to assuage market fears. This was followed by another 23 percent devaluation of the peso in March (Smith, 1989: 245). The move put increased pressure on inflation, which was also being fueled by the growing fiscal deficit. Economic ministers relied increasingly on price and wage controls to keep inflation in check. Unfortunately, repeated attempts to normalize prices and stabilize inflation failed and an economic crisis erupted (Boughton, 2001: 328). Between 1980 and 1982, real GDP contracted by more than ten percent and the country's total debt virtually tripled, reaching nearly $45 billion in 1982 (Figure 2-1). Furthermore, in spite of recent devaluations, the peso remained overvalued, generating a balance of payments deficit that severely hampered Argentina's ability to service its debt. The nation's economic situation was precarious.

A military cabinet reshuffling in 1981 ushered in a new economic team, and Economic Minister Roberto Alemann was charged with stabilizing the economy (Boughton, 2001: 329). He returned to more orthodox policy prescriptions and attempted to restore fiscal discipline.

Alemann immediately implemented a floating exchange rate to restore international competitiveness in the trade sector; he also froze public wages and cut off inefficient public enterprises in an attempt to curtail excessive foreign borrowing (Boughton, 2001: 329). The economic minister also realized that little progress could be made to reduce Argentina's debt without assistance from foreign creditors. He began simultaneous negotiations with creditors and the IMF in early 1982 (Boughton, 2001). Unfortunately, in the midst of Alemann's negotiations, the Malvinas/Falklands War erupted. The international economic response was rapid and severe. Britain severed all financial ties with the country and froze Argentine assets; Argentina responded by discriminating against British banks. Europe closed its markets to Argentine imports and the United States eliminated Argentina's trade support through the Export-Import Bank (Boughton, 2001: 330). The country was isolated, and heavily in debt.

By the end of the war in June of 1982, Argentina owed $2 billion in arrears on its foreign debt (Boughton, 2001: 330). The lack of export earnings made it impossible for Argentina to make the interest and principle payments on its debt obligations. Without some concessions from creditors and a rescheduling of debt payments, Argentina was in danger of a full default.[10] However, Argentina's strained relationship with British creditors made rescheduling negotiations difficult. Facing an income shortfall as interest payments were coming due, the authorities negotiated with the IMF for a stand-by arrangement in late 1982. According to Stiles, the terms of the agreement were quite reasonable: Argentina agreed to reduce the public sector deficit from 14% to 8%, and keep inflation below 150% (Stiles, 1987: 63). Thanks to the agreement, Argentina was able to make its debt payments, but soon missed the fiscal and monetary targets. A new economic plan initiated in late 1982 dismantled the previous program of fiscal austerity,

[10] Mexico had already declared a moratorium on debt payments in August of 1982, marking the official beginning of the debt crisis. The global financial community could not risk an Argentine default as well.

relying instead upon “dual exchange rates, import restrictions and export subsidies” (Stiles, 1987: 61). The IMF agreement fell apart. One analyst described Argentina’s financial system during this period as “having the solidarity of a house of cards” (Stiles, 1987: 61). The economic situation was so bad that the military junta was forced to step aside in 1983. As democratic elections loomed, the economic team struggled to keep creditor and IMF negotiations on track for the new government.

The Alfonsín Administration

Raúl Alfonsín took power in December of 1983 and appointed Bernardo Grinspun as his Economic Minister. The economic situation was precarious for the new administration. Substantial fiscal spending cuts were necessary, but such cuts were unlikely to garner necessary political support. Any deterioration in the economic situation or the adoption of unfavorable economic policies carried high political risks. In order to strengthen his political position, Alfonsín immediately took a “hard line” approach with international creditors and the IMF, calling for favorable debt rescheduling amid threats of a full default (Stiles, 1987). There was a lot at stake. The debt crisis jeopardized the solvency of the entire global financial system, and creditors could not afford a default in Argentina. The Argentine government, for its part, needed economic stability and could not realistically implement the necessary reforms without international assistance. In 1983, the situation was touch and go. New economic minister Bernardo Grinspun attempted to simultaneously negotiate a new arrangement with the Fund and a rescheduling with creditors. However, creditors refused to reschedule without an IMF agreement in place, and the IMF was wary of the authorities’ ability to meet the targets outlined in a new agreement (Boughton, 2001: 389).

Between 1983 and 1985, the relationship between Argentina, the IMF and international creditors was rocky. Although Argentina and the Fund continued to negotiate for a new agreement that would address the poor economic situation, political pressures within the country made negotiations problematic. According to Boughton (2001), Argentina failed to play by the rules when dealing with its public and private creditors. The government faced strong domestic pressure to get tough with the IMF and the Paris Club, and Alfonsín often made public calls for debt relief. One scholar described Argentina's relationship with creditors as a "repetitive game of financial chicken" for much of the 1980s (Stiles, 1987: 66). At one point, creditors rescheduled interest payments four separate times in less than three months in response to Argentina's threat of default (Stiles, 1987). However, the government's heavy-handed approach with creditors did little to improve the economic situation.

Faced with monthly inflation of nearly 30 percent and stagnant productivity, Grinspun unveiled a 'shock therapy' program to stabilize the economy in 1985. The heterodox program relied on tight fiscal and monetary policies in combination with the "less conventional instruments" of price and wage controls (Kiguel, 1989: 3). There were three fundamental elements to the Austral Plan[11]: first, in order to reduce the fiscal deficit, the authorities announced that the central bank would no longer finance the treasury; second, wages and prices were frozen indefinitely; third, a new currency was unveiled (Heymann, 1987: 285).[12] The stated purpose of the plan was to *eliminate* inflation (Kiguel, 1989: 3).[13] Unconventional price and wage controls were used expressly for this purpose, though additional monetary and fiscal policies were also important elements of the plan. The announcement that the central bank

[11] The plan took its name from the country's new currency, the Austral.
[12] The austral came into circulation on June 14, 1985 when all peso-denominated deposits were converted at a rate of 1,000 pesos to 1 austral (Heymann, 1987: 285).
[13] Eliminating inflation is an ambitious task for any country, but it would be nearly impossible in Argentina, where annual inflation was greater than 400 percent.

would no longer print money to finance budget deficits was a critical component of the plan's monetary stabilization, since there was a "wide (and well founded) perception at the time that central bank financing of the deficit was at the core of the inflationary process" (Kiguel, 1989: 15). The decision to peg the new currency to the dollar was also expected to immediately curtail inflation (Boughton, 2001: 461).

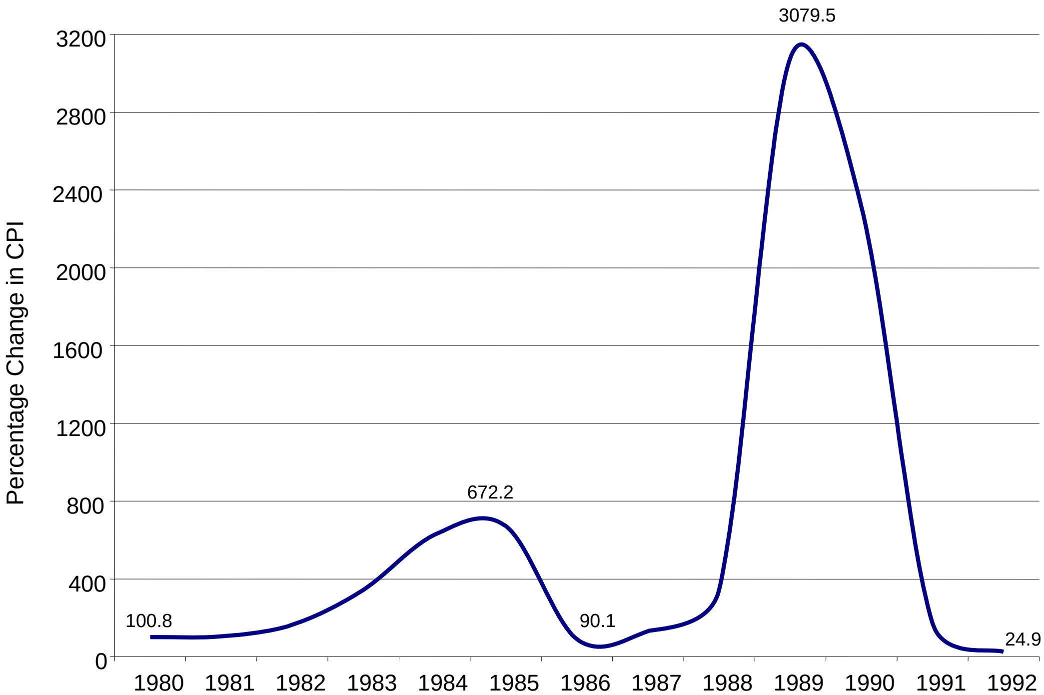

Figure 2-2. Annual Inflation 1980-1992. International Monetary Fund.

Initially, the Austral plan was successful at bringing inflation down and reducing fiscal imbalances. Annual inflation dropped dramatically from 672 percent in 1985, to just 90 percent in 1986 (Figure 2-2). Price and wage controls proved to be a critical factor in the reduction of inflation in the early stages of the plan. The total budget deficit also fell under the plan, although this was generally attributed to larger tax revenues, not spending cuts (Boughton, 2001). This fact troubled some economists who feared that the reduction of the fiscal deficit would be temporary without attention to cuts in government spending (Kiguel, 1989: 7). However, the initial success of the program was welcomed by IMF Executive Directors who “qualified the program as bold, courageous, and imaginative” (Boughton, 2001: 401).[14] A 1984 stand-by arrangement, which had been derailed by Argentina’s lack of compliance, was re-activated in June of 1985.

By the end of the year, however, the plan was already breaking down. Congressional elections increased fiscal spending and the current account soon went into deficit. Public employees also began pressuring the government to end the wage freeze (Boughton, 2001: 401). Furthermore, the overvaluation of the Austral caused imports to substantially outpace exports. Increases in consumption created demand for money, fueling inflation that already hovered around 2.5 percent a month (Kiguel, 1989: 17). The authorities realized that a ‘flexibilization’ of controls was necessary to realign prices within the system. The Austral was devalued and wages and prices were permitted to rise. The relaxation of price controls had two negative effects on the economy. First, in the absence of nominal anchors, prices (and inflation) rose dramatically, fueling speculation that the government would once again implement price controls. In response to this expectation, firms increased prices, which further increased inflationary pressures. Furthermore, the authorities’ relaxation of controls was seen by many as acceptance of the fact that zero inflation was an impossible goal (Kiguel, 1989: 19). The credibility of the entire system therefore came into question. Faced with the impossibility of eliminating inflation, the government aimed to keep inflation within acceptable levels, but without price controls there was no viable mechanism to do so. The authorities appeared unable to gain control of the situation; inflation was growing, the budget deficit was increasing, and Argentina again fell into arrears with its Paris Club creditors in late 1985 (Boughton, 2001: 401). To make matters worse,

[14] The IMF initially welcomed the Austral Plan as a bold stabilization policy, but by the end of 1985 Executive Directors reconsidered their praise of the program. Once the program began to break down, the IMF conceded that the plan was well-designed on paper, but was too ambitious to be successful in practice (Boughton, 2001: 461).

Argentina's inflation rate forced the country out of compliance with its IMF agreement, and a scheduled disbursement of stand-by funds was cancelled.

The loss of stand-by funds was particularly detrimental because Argentina owed approximately $48 billion to foreign creditors, a debt burden of nearly 75 percent of GDP (Boughton, 2001: 462). Without short-term financing from the IMF, Argentina was in danger of going into arrears with its creditors. In order to avoid a default, negotiations to resurrect an IMF agreement began again in February of 1986. The Fund agreed to work with the authorities to draft a new stand-by arrangement, at which time the authorities agreed to reduce the fiscal deficit to 3 percent by the end of 1986 (Boughton, 2001: 462). Unfortunately, by April, Argentina had already missed its fiscal targets and the IMF was unable to approve additional funds. As a result, Argentina risked missing a $600 million interest payment to its creditors.

Once again, Argentina took a confrontational approach with its creditors, threatening to default on its interest payments unless the banks agreed to reschedule. The IMF was faced with a troubling choice; approve financing for a country that was unable to meet basic fiscal and monetary targets, or watch Argentina default and further destabilize the financial system (Boughton, 2001). The situation appeared to be at a standstill. Argentine authorities were playing hardball with creditors, but the Paris Club wanted an IMF agreement in place before agreeing to any debt rescheduling. The IMF, for its part, wanted creditors to work out a rescheduling while it attempted to negotiate an agreement with the authorities. Ultimately, it was decided that the financial community could not risk another default. Amid serious reservations from some Executive Directors, the IMF issued a waiver to Argentina for the disbursement of funds in June of 1986, even though fiscal and monetary targets previously established had not been met.

Argentina was able to make its interest payments, and a default was avoided. However, the economic situation did not improve. The authorities attempted a new stabilization plan in August of 1986 that focused almost solely on controlling monetary imbalances (Kiguel, 1989: 23). A 3 percent price ceiling was set for monthly increases in both prices and wages, but authorities paid little attention to the fiscal situation.[15] The plan initially succeeded in keeping inflation rates high, but stable. However, the economic situation continued to worsen throughout 1986, and by February of 1987 a total price freeze was introduced. According to Kiguel, the economic team focused primarily on price and wage freezes because they considered monetary and fiscal policies to be solid (Kiguel, 1989: 24-25).[16] The new freeze was only successful for a couple of months before inflation resurfaced. A constant rise in inflation plagued the country for the next eighteen months (see Figure 2-3).

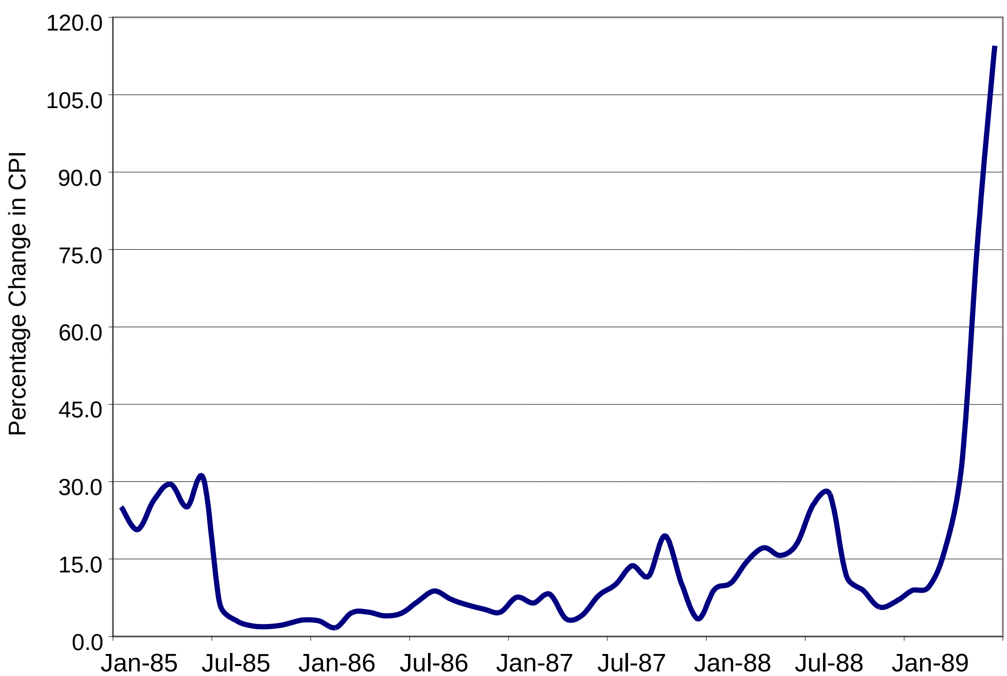

Figure 2-3. Monthly Inflation 1985-1989. Kiguel, 1989.

[15] According to Kiguel (1989) the authorities' neglect of fiscal policy was based on the belief that "the fiscal situation was fundamentally sound" (Kiguel, 1989: 23).
[16] IMF staffers did not share this assessment. The IMF continually argued that "Argentina's fundamental problem was an inability to reduce fiscal deficits" (Boughton, 2001: 331).

A new attack on inflation in late 1987 featured a substantial devaluation of the austral coupled with a renewed pledge to tighten fiscal and monetary policy (Beckerman, 1995). Inflation was hovering at a monthly rate above 15 percent, and the Central Bank faced a growing interest bill. Payments on the external debt were also mounting. During the first quarter of 1988, Argentina went into arrears with its bank creditors, and "for a time paid just enough interest to keep arrears from accumulating to 90 days" (Boughton, 2001: 520). By August of 1988, the macroeconomic situation was taking a heavy toll on the Alfonsín administration. Publicly, the president and his economic minister continued to take a hard line with creditors (Stiles, 1987). However, the authorities continued to meet privately with IMF staffers to design a new economic program that would reduce inflation to single digit levels and reduce pressure on the Central Bank (Beckerman, 1995: 667). Unfortunately, upcoming elections greatly reduced political support for a hard-hitting fiscal and monetary stabilization program. Lack of political support for an economic austerity package led the government "to control inflation sufficiently to enable the Radical Party candidate to campaign successfully," without establishing any permanent policies (Beckerman, 1995: 671). Substantive changes were virtually impossible before the election, but it was hoped that the new government would pursue economic reform once the election was secured.

In August of 1988, a new heterodox program was unveiled to tame inflation. The centerpiece of the plan was an 11.5 percent devaluation of the austral, which would be pegged to the dollar for a period of two months (Boughton, 2001: 521). After the peg, the currency would depreciate at a fixed rate of 4 percent a month. Managed price increases were also fixed at the same rate. The authorities tightened monetary policy, but fiscal adjustments remained weak. The IMF feared that any stability generated by the plan would be short-lived without an attempt at fiscal balance, but hoped for the best (Boughton, 2001: 521). Unfortunately, the plan collapsed after just six months. The fixed rate of depreciation proved insufficient to keep inflation within manageable levels, and also adversely affected Argentina's international competitiveness. In a final attempt to stabilize the economy, the authorities switched to a multiple exchange rate system where the capital account transaction rate was permitted to float (Boughton, 2001: 524). This abrupt decision to alter exchange rate policy sparked hyperinflation and massive capital flight. The severity of the economic situation cost the Radical Party the presidential election and forced President Alfonsín to step down nearly six months ahead of schedule.

When Carlos Menem took power in July of 1989, he inherited an unstable currency, *monthly* hyperinflation rates that exceeded 125 percent and approximately $5 billion of arrears on external debt (Boughton, 2001: 525). Menem and his new economic ministers quickly implemented a new heterodox plan to get the situation under control. In addition to massive currency devaluation[17], the plan also featured substantial fiscal reforms, such as cuts in public spending, privatization of public enterprises, and tax reform (Boughton, 2001: 525). The authorities were also quick to renegotiate a stand-by arrangement with the IMF which was approved in November of 1989 (Boughton, 2001: 526). While the so-called "Bunge y Born" plan was aggressive and more serious about fiscal policies than its predecessors, it soon faltered.[18] The Central Bank's debt stock grew rapidly, and inflationary pressures could not be contained. The deteriorating economic situation forced a new devaluation of the austral, from a rate of A$655 to A$1,000. Soon after, a floating exchange rate was implemented, and a "vicious

[17] According to Beckerman (1995: 673), Menem's economic team intentionally over-devalued the austral. The exchange rate fell from A$303 to A$655 – a devaluation of more than 50 percent.
[18] The "Bunge y Born" plan was so-named because many members of Menem's economic team came from the multinational corporation (Beckerman, 1995).

cycle of exchange rate depreciation, surging prices, and soaring interest rates ensued" (Beckerman, 1995: 676). The IMF cancelled Argentina's stand-by agreement as annual inflation in 1989 reached more than 3,000 percent (Figure 2-2). A new plan to quell hyperinflation in January 1990 also failed to do the job, and speculation about dollarization pushed the exchange rate to A$5,965 by the end of February (Beckerman, 1995: 678). By the end of 1990, inflation exceeded 2,300 percent and Argentina was still in trouble with its creditors. Many analysts began to wonder if anything would get Argentina's economy back on track.

Comments on Argentine Economic Policy Prior to 1991

The preceding examination of Argentina's economic policies during the 1980s yields three important findings. First, economic policymakers relied heavily on unconventional methods in their attempts to achieve stability. Price controls, wage freezes and exchange rate manipulations became increasingly common during the decade, while orthodox monetary and fiscal policies were infrequently utilized (Kiguel, 1989; Kiguel and Liviatan, 1990). Furthermore, the reliance on unorthodox policies underscores the high level of government intervention in the economy. Second, the frequency of hyperinflationary episodes suggests that price and wage controls were insufficient to address Argentina's chronic economic problems. By relying on unconventional methods to combat inflation, the authorities were treating the symptoms of economic instability, rather than the underlying causes. Finally, within Argentina there was a considerable lack of political support for any kind of substantial economic reform, while domestic pressure to "play hardball" with international creditors remained high. This combination of factors necessarily made a cooperative relationship with the IMF virtually impossible. Given the combative nature of Argentina's interactions with the IMF, it is surprising that the two parties were able to sustain a relationship at all.

Some have argued that the IMF was flexible with Argentina to the point of being too lenient (Boughton, 2001, Mussa, 2002). On certain occasions, the Fund approved arrangements even when it was obvious that Argentina could not comply with the program targets. Such was the case when the IMF approved an agreement "in principle" in February of 1987, in order to facilitate a debt restructuring with public creditors.[19] The arrangement fell apart within weeks (Boughton, 2001). Furthermore, the IMF routinely proved willing to extend flexible stand-by terms in an effort to defray Argentina's frequent threats of default. In 1982, the Fund negotiated an agreement that required Argentina to reduce inflation from 500 percent and cut the public sector deficit to 8 percent (Stiles, 1987: 62-63). The arrangement was ultimately suspended for failure to comply. Although IMF Directors "expressed widespread disappointment" with Argentina's consistent failure to meet program targets, they also felt that they had to give Argentine authorities "the benefit of the doubt" (Boughton, 2001: 470-471). While threats and concessions defined Argentina's relationship with the IMF during the 80s, the 1990s would witness the creation of a full and successful partnership between the two.

The Convertibility Plan

The failure of the Bunge y Born plan and the subsequent hyperinflation of 1990 proved to President Menem that radical measures were necessary to change the course of the Argentine economy. In late 1990, after another failed attempt to end hyperinflation, President Menem hired Domingo Cavallo to head a new economic team.[20] The Economic Minister immediately embarked on a radical plan to decrease inflation, stabilize the currency and restore economic growth. The Convertibility Plan became the centerpiece of Cavallo's economic program

[19] Arrangements "in principle" are approved by the IMF, but funds are withheld until other financing arrangements have been secured (Boughton, 2001: 409). These arrangements are typically used when creditors require an IMF agreement prior to the rescheduling of debt payments.
[20] Cavallo, a Harvard-trained economist, was widely expected to adhere more closely to economic orthodoxy than his predecessors.

(Cavallo and Cottani, 1997: 17). Although a rigid currency peg became the high profile component of the plan, convertibility consisted of four central pillars:

> First, the monetary reform, based on the convertibility law, had as its main objectives to eliminate inflation and restore confidence in the Peso. Second, a reduction in the fiscal deficit was aimed at consolidating price stability and guaranteeing that the government would not print money to finance expenditure. Third, structural adjustment reforms, such as deregulation of key markets, the opening up of the economy to international trade, and privatization of public sector enterprises were aimed at generating the basis for economic growth. Finally, the institutional framework was strengthened by granting independence to the Central Bank, creating institutions to regulate the recently privatized utilities and by strengthening the Securities and Exchange Commission (Kiguel, 2002: 87).

Monetary reform was largely carried out through the convertibility law which pegged the peso at one to one parity with the dollar. This quasi-dollarization provided a necessary nominal anchor in the economy to reduce inflation (Kiguel, 2002). The term 'convertibility' referred to the free conversion between dollars and pesos that occurred under the exchange rate system. The convertibility law also required the central bank to hold verifiable international reserves equal to the monetary base. This greatly limited the Bank's ability to finance the treasury (Kiguel, 2002:.87).[21] Fiscal reform was another critical element of Cavallo's plan. Lack of attention to fiscal priorities during previous stabilization programs resulted in fiscal deficits of nearly 8 percent of GDP at the turn of the decade (Kiguel, 2002: 87). Cavallo argued that fiscal responsibility was crucial to the credibility of the entire program: the reserve restrictions imposed on the Central Bank required that fiscal policy be the primary tool of macroeconomic adjustment (Independent Evaluation Office, 2004: 23). In the event of a downturn, deficit financing would be required to carry the economy. This could not happen if fiscal deficits were high. Fiscal priorities therefore became critical to the success of the program.

[21] The Central Bank could only finance the treasury through the purchase of dollar-denominated treasury bonds at market prices (Kiguel, 2002: 87). The authorities hoped that this legal requirement would reduce money creation and therefore reduce inflation.

Structural adjustment programs (SAPs) represented another fundamental component of Convertibility. Privatization of inefficient public sector enterprises was the most prominent SAP, and arguably the most successful (Independent Evaluation Office, 2004; Kiguel, 2002). Privatization was necessary for two reasons: first, the sale of public enterprises generated revenues and reduced the fiscal deficit. Second, the increased efficiency of privatized industries generated productivity gains for the economy (Kiguel, 2002: 88). On other fronts, deregulation and the reduction of tariffs opened Argentina's economy to international trade. A broad corporate and personal income tax base was established and distortionary taxes were eliminated (Independent Evaluation Office, 2004: 30). Measures were also undertaken to strengthen tax compliance, and the social security system was privatized.

From the economic standpoint, the Convertibility plan was extremely successful. Annual inflation dropped rapidly under the plan, from nearly 3,080 percent in 1989 to below 25 percent in 1992 (see Figure 2-2). Inflation continued to drop until consumer prices came in line with international prices in 1994 (Cavallo and Cottani, 1997: 17). The recovery of economic growth also exceeded expectations. Real economic growth surpassed eight percent in 1991 and 92, and remained well above six percent until 1995 (International Monetary Fund, 1995). The currency board was also successful from a political standpoint, because it "stopped hyperinflation without producing a recession and without causing regressive income redistribution" (Cavallo and Cottani, 1997: 17). National support for the stabilization effort was strong, largely because it was successful at reducing inflation. The restoration of economic credibility also became a source of national pride for many Argentines. However, initial IMF support for the program, especially the currency board, was mixed. Based on Argentina's experience in the 1970s and

1980s, the IMF was not wholly convinced that the Convertibility Plan could deliver sustained economic stability. A July 1991 staff report on Argentina cautiously noted that:

> the convertibility scheme can assist the authorities in their search for a rapid deceleration of inflation, but it is also evident that inflation must decline quickly and stay at very low levels if the economy's competitiveness is not to be impaired. This in turn requires that the fiscal objectives of the program be fully met (Independent Evaluation Office, 2004: 17).

Furthermore, Argentina's decision to establish a hard peg to the U.S. dollar clearly conflicted with the IMF's overarching preference for flexible exchange rate systems (Independent Evaluation Office, 2004; Mussa, 2002). There were also recurrent doubts about the plan's viability as a long-term arrangement (Cavallo and Cottani, 1997: 19).

By 1998, however, the Convertibility Plan was being heralded by the IMF and World Bank as a successful program for reform. The international financial community gave Argentina high marks for its dedication to substantial market reform. Such support is not surprising, given that the Convertibility Plan was largely based on Washington Consensus policies advocated within the international financial community.[22] Although the term "Washington Consensus" now sparks heated debate among scholars and policymakers, the term was originally little more than a list of ten economic policy instruments:

> fiscal discipline, reordering public expenditure priorities[23], tax reform, liberalizing interest rates, a competitive exchange rate[24], trade liberalization, liberalization of inward foreign direct investment, privatization, deregulation, and property rights (Williamson, 2002).

[22] The term 'Washington Consensus' was coined by John Williamson in 1990, in an attempt to define what Washington policymakers meant by the phrases "policy reform" and "structural adjustment" in the post-debt crisis economies of Latin America.
[23] In his original work, Williamson clearly argues for a shift in spending priorities away from subsidies toward education, health and infrastructure investment. He does not advocate cuts in government spending to achieve fiscal discipline, as some critics have accused (see Williamson, 2004).
[24] In his 2004 speech "A Short History of the Washington Consensus," Williamson clarifies his definition of competitive exchange rates, stating: "My fifth point reflects a conviction that overvalued exchange rates are worse than undervalued rates, but a rate that is neither overvalued nor undervalued is better still."

It is not difficult to see that Argentina adopted a number of these policy instruments when constructing its economic recovery program: fiscal discipline, tax reform and improved tax compliance, liberalized trade and foreign direct investment, privatization, and deregulation. The initial success of these policy instruments in Argentina prompted many in the international financial community to advocate that developing nations follow Argentina's lead in adopting structural reform. President Menem himself encouraged other developing countries to follow the path of Argentina in his 1998 speech at the Annual Meeting of the Executive Board of the International Monetary Fund and World Bank (International Monetary Fund, 1998b).

The depth and sustained success of Argentina's 1991 economic reform is remarkable given the tumultuous history of the nation's policies in the 1980s. The fact that the Convertibility Plan was spearheaded by a President widely considered a populist is even more remarkable. President Menem campaigned on a populist platform and advocated taking a "hard line" on external debt service, but once in power he proved to be a dedicated reformist (Boughton, 2001: 525). The rationale behind Menem's dedication to economic reform is, not surprisingly, largely political. As noted by Bambaci et al (2002) "the primordial interest of the politician is the survival of the structure from which he derives power" (Bambaci et al., 2002: 78). The severity of Argentina's economic turmoil in the late 1980s threatened the stability of the entire country. Menem was compelled to undertake serious economic reform to ensure his own political survival. The Convertibility Plan was, therefore, as much a political vehicle as an economic platform.

Convertibility enjoyed strong public support from citizens relatively quickly. The restoration of growth and the return of economic stability were welcomed by Argentines who had suffered during the 1970s and 80s. However, the long-term success of the convertibility program and its attendant neo-liberal policies was dependent upon broad legislative support for the reform effort.[25] This was not easily achieved in a country like Argentina. Bambaci et al (2002), note that Menem faced substantial resistance to his neo-liberal agenda from members of his own party as well as labor unions and economic groups.[26] The President was ultimately able to overcome this resistance and weaken anti-reform coalitions through a series of political concessions (Bambaci et al, 2002; Corrales, 1998). Supporters of economic reform were rewarded with economic incentives and political favors, while opponents were punished.[27] When political concessions proved insufficient to secure needed support, Menem resorted to the use of "Decrees of Urgency and Necessity," to obtain reform (see Bambaci et al, 2002; Norden and Russell, 2002).[28] Regardless of the methods used to secure their passage, the reforms enacted between 1991 and 1998 placed Argentina on a path of strong and sustained economic growth. It appeared that the country had finally broken away from its turbulent economic history.

Conclusions

The 1980s were a tumultuous decade for Argentina's economy. A high external debt burden placed Argentina in the center of the debt crisis. The nation struggled with high rates of inflation, sizeable fiscal deficits, an overvalued currency, and a crushing debt burden. Economic instability and hyperinflation made negotiations with the IMF difficult, and often contentious. The poor economic situation led to the ouster of two political regimes within the decade. The success of the 1991 Convertibility Plan was unexpected, due to Argentina's poor reputation for

[25] Corrales (1998) notes that the failure of privatization efforts in Argentina during the 1970s and 80s is largely attributable to a failure to secure necessary support from political coalitions.
[26] Many Peronists, felt that Menem's reform agenda was antithetical to the embodiment of the party (Bambaci et al, 2002).
[27] This tactic was particularly effective with labor unions (Bambaci et al, 2002: 82).
[28] Menem's repeated use of decrees of "urgency and necessity" drew widespread criticism throughout the 1990s.

economic reform experience and because a populist from the Peronist Party was spearheading the reform effort. However, the multi-pronged stabilization effort was successful for its first seven year, and it earned the full support of the international community. Even the IMF, once skeptical of Convertibility's long-term success, endorsed the program. In October of 1998, President Menem stood before the IMF Executive Board of Directors and spoke about his country's successful economic reform. He even encouraged other developing economies to follow Argentina's lead. At the end of 1998, Argentina's economic future looked bright. Fewer than three years later, the country would experience the worst economic crisis in national history.

CHAPTER 3
ANATOMY OF THE CRISIS

In October of 1998, President Menem spoke at the Annual Meeting of the Board of Governors of the IMF touting the strength and ingenuity of the Convertibility Plan, referring to Argentina's economic experience in the 1990s as "an absolute economic miracle" (International Monetary Fund, 1998b). He attributed the success of Argentina's program to strength of political will and the restoration of the nation's ethical values, replacing corruption and inefficiency with fiscal, monetary and financial stability. President Menem was optimistic that Argentina would weather the Asian and Russian financial crises of the previous year and continue on the path of economic growth and development. The international financial community generally shared this optimism, based in large part upon Argentina's decisive response to the Mexican crisis of 1994-95, and the overall strength of the country's economic performance in the preceding years (see Mussa, 2002).

However, cracks in Argentina's economic program were beginning to show: growth and productivity were slowing down and the currency was becoming overvalued. By 1999, a recession was in full swing. Furthermore, although the financial system was sound and monetary policy remained tight, there were growing concerns within the IMF about Argentina's fiscal position (see Mussa, 2002; Allen, 2003). A series of adverse external shocks, in combination with a deteriorating domestic environment, further threatened the Argentine economy. Attempts to rebound from recession and minimize contagion from the Russian crisis proved unsuccessful, and financial markets became increasingly pessimistic about Argentina's economy, as evidenced by the sharp increase in interest rate spreads for Argentine debt between 2000 and 2001.[1]

[1] For the purpose of this thesis, interest rate spreads refer to the differential between interest on U.S. Treasuries and comparable Argentine securities. A rising interest spread generally connotes greater investment risk. Spreads are usually quoted in basis points (1 basis point = 1/100th of a percent). Therefore, if the 10 year U.S. Treasury is

Financial assistance from the IMF was readily given, but did little to allay investor fears, as Argentina's debt burden grew to unsustainable levels. The return of Domingo Cavallo as economic minister in the spring of 2001 only destabilized Argentina's situation further (Mussa, 2002; Independent Evaluation Office, 2004). By December of 2001, there were widespread protests against the government's handling of the economic situation that turned violent following a partial freeze of bank deposits at the beginning of the month. When the IMF announced that it could no longer support Argentina's program and that additional financial assistance would not be forthcoming, the economy collapsed: the currency peg was abandoned, the banking system failed and Argentina defaulted on nearly $95 billion in debt (Independent Evaluation Office, 2004). This chapter examines the anatomy of Argentina's crisis, beginning in late 1998.[2] The first section offers a detailed chronology of the events leading up to the collapse, including a thorough discussion of IMF involvement with the authorities as the economic situation deteriorated. The second section will examine several important factors that contributed to the crisis.

Recession and Contagion

At the end of 1998, Argentina was facing a slowdown of growth and productivity, but more serious economic problems lay on the horizon. According to a 2004 report by the IMF's Independent Evaluation Office, Argentina faced no fewer than eight adverse developments between 1998 and 2000 that hindered the economy. These included:

> (i) a sharp reduction of capital flows to emerging markets after the East Asian and Russian crises of 1997-1998; (ii) a corresponding increase in the risk aversion of international investors; (iii) a terms of trade shock deriving from the fall in the relative price of commodities exported by Argentina; (iv) the Brazilian devaluation of early 1999 and the ensuing loss of market share in Brazil; (v) a secular appreciation of the U.S.

---

trading at 5 percent and a comparable 10 year Argentine security is trading at 12.5 percent, the interest rate spread is 7.5% or 750 basis points.

[2] See Appendix C for a timeline of selected events.

> dollar relative to the euro that eroded the competitiveness of Argentina in third markets; (vi) a sharp increase – by 175 basis points – in the U.S. federal funds rate between mid-1999 and mid-2000; (vii) prolonged recession in Argentina; and (viii) the structural and worsening current account deficit (Independent Evaluation Office Report, 2004: 20).

Even though many of these developments were exogenous, and were not a reflection of Argentina's specific economic performance, they had a very real impact on the economy. One of the most serious shocks was the Russian crisis in August of 1998. Russia's debt default upended financial markets and forced an increase in interest rate spreads for all emerging market debt (Bleaney, 2004: 710). As a result, investors became skittish and there was substantial capital flight from emerging markets in general and Latin American markets in particular. Argentina, whose convertibility regime relied heavily on capital flows to increase the stock of international reserves, was hit particularly hard when investors shied away from the market. The rise in interest rate spreads associated with the crisis essentially cut the country off from financial markets for much of 1998 and into 1999.

By most outward appearances, however, Argentina's economic situation was stable at the end of 1998. The continued slowing of economic growth was largely attributed to contagion from the Russian crisis, and other indicators remained positive: unemployment was forecast to drop to 12.4 percent and the banking sector reported growth in deposits and an increase in international reserves despite the Russian default (International Monetary Fund, 1999a). In January, the authorities moved ahead with a precautionary IMF program for 1999. Argentina did not intend to draw upon the funds of the new stand-by facility, but understood that external developments required macroeconomic and fiscal adjustments and welcomed IMF support. The program included structural and financial components, but responsible fiscal policies were seen to play a critical role in the continued stability of Argentina's economy. To that end, authorities announced a "Fiscal Responsibility Law" that would establish a ceiling on government debt, limit the growth of government spending to the rate of GDP growth, and establish a stabilization fund intended to smooth fluctuations in tax revenues (International Monetary Fund, 1999a). Also included in the plan was a tax reform to broaden the base of the value-added tax (VAT) and promises to improve tax compliance. In its approval of the program in March, the IMF noted Argentina's successful pursuit of structural reforms and welcomed the authorities' dedication to fiscal responsibility (International Monetary Fund, 1999b).

Not long after the unveiling of its January economic program, Argentina suffered another shock when primary trading partner Brazil abandoned its partial currency peg and substantially devalued the real. Brazil's devaluation resulted in an immediate and severe loss of competitiveness in Argentina's largest export market and was arguably more adverse for the economy than contagion from the Russian crisis (see Kiguel, 2002; Bleaney, 2004). The rigidities of the convertibility system subjected Argentina to the full brunt of Brazil's devaluation by making a depreciation of the peso impossible. To make matters worse, 1999 also witnessed a substantial strengthening of the dollar (and the peso) versus the euro, which hindered competitiveness in Argentina's second largest export market (Pastor and Wise, 2001: 63). Within a matter of months, Argentina watched the peso appreciate against the currencies of its two largest trading partners.[3] Bleaney estimates that as a result of the currency peg, Argentina's real effective exchange rate rose by 35 percent against international currencies in the period 1995 to 2001 (Bleaney, 2004: 701). Additionally, a decrease in international commodity prices and a deterioration of Argentina's terms of trade did further damage to the country's external position (Kiguel, 2002: 95).

[3]Pastor and Wise estimate that between January of 1999 and the end of 2000, the peso strengthened by more than 20 percent against the euro (Pastor and Wise, 2001: 63).

Argentina's loss of international competitiveness fueled a full-blown recession and increased pressure on the fiscal accounts. Figure 3-1 shows the precipitous contraction of economic growth between 1999 and 2002. The reduction of capital inflows stemming from the Russian crisis required Argentina to increase foreign borrowing to cover shortfalls in the current account. As GDP growth contracted and international borrowing accelerated Argentina's debt profile began to deteriorate (Kiguel, 2002: 95). When the debt-to-GDP and debt-to-export ratios surpassed 50 and 500 percent respectively at the end of 1999, some analysts became concerned about the sustainability of Argentina's debt (Bleaney, 2004).

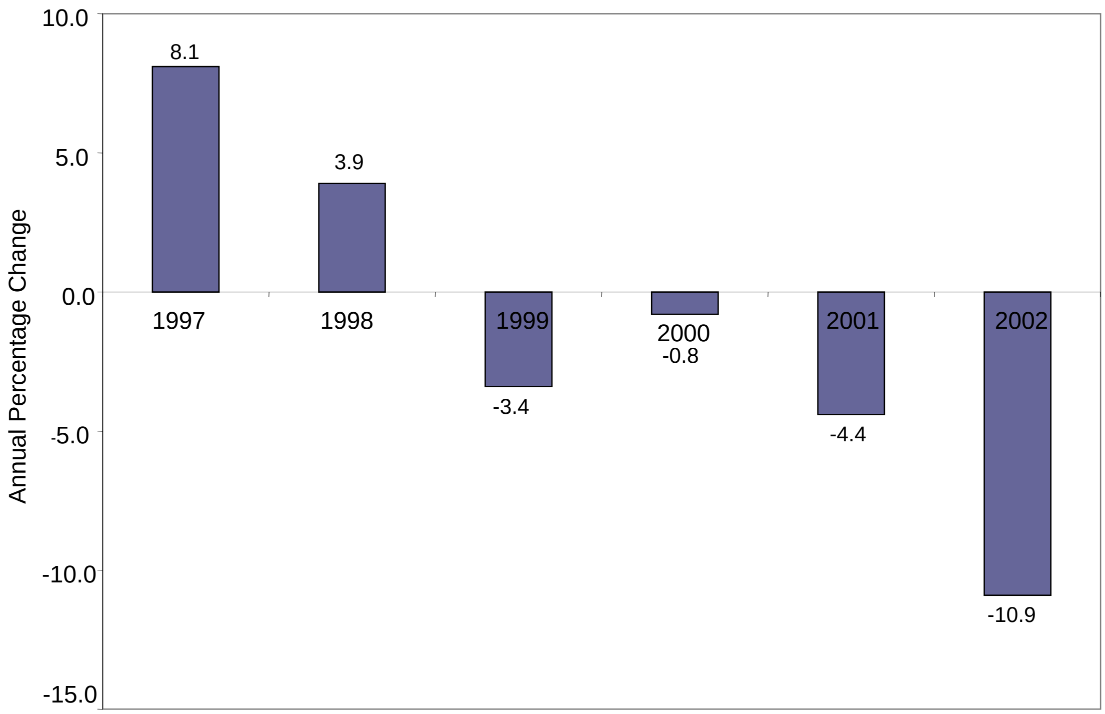

Figure 3-1. GDP Growth 1997-2002. United Nations Economic Commission for Latin America and the Caribbean.

External shocks to the economy were taking their toll, but domestic factors also contributed to an erosion of the economic program. There was a gradual loosening of fiscal policies at the end of the 1990s which did not go unnoticed by IMF managers (International

Monetary Fund, 2000d). The presidential elections of 1999 proved to be a substantial source of fiscal profligacy (Corrales, 2002). In 1997, President Menem announced his intention to campaign for a third term in office.[4] Faced with strong opposition from his own Peronist party (PJ) for a reelection bid, Menem increased government spending in an attempt to buy his nomination. He also increased spending on a variety of social programs to win the support of voters (Corrales, 2002). Meanwhile, the Governor of the Province of Buenos Aires Eduardo Duhalde announced his intention to campaign against Menem for the Peronist nomination, sparking a provincial spending spree. The fiscal deficit for the Province of Buenos Aires increased from 7 percent to nearly 25 percent of revenue between 1996 and 1999 (Corrales, 2002: 33). Clearly, fiscal prudence went by the wayside in the lead-up to the election.

Menem eventually lost his bid for the PJ nomination, and Eduardo Duhalde campaigned against opposition candidate Fernando de la Rúa for the presidency. During the election, convertibility enjoyed strong popular support from voters, prompting campaign pledges from both candidates to maintain and strengthen the convertibility regime (Independent Evaluation Office, 2004: 16). However, in the run-up to the election, the Peronist majority in congress largely neglected important second generation reforms of convertibility such as improved tax compliance and labor market flexibility. Furthermore, there was growing discontent about the PJ's handling of the worsening economic situation. As a result, Argentines voted for the opposition candidate, and de la Rúa took office in December of 1999.

Fiscal Deterioration

The economic challenges facing President de la Rúa after his inauguration were substantial: the recession was now in its second year and fiscal deficits were growing, as was the

[4] A third presidential term was expressly prohibited by the constitution, which, incidentally, Menem amended in 1994 to formalize his bid for a second term (Corrales, 2002: 33). Prior to the constitutional amendment of 1994, presidents were limited to a single six-year term.

external debt. However, there were early signs that the new Minister of the Economy Jose Luis Machinea was dedicated to getting the Argentine economy on track. In early 2000, the administration announced its intention to seek a revised three year Stand-By Agreement with the IMF on a precautionary basis (International Monetary Fund, 2000a).   The authorities recognized the need to improve federal and provincial spending patterns in the wake of a "substantial deterioration of the provincial finances" throughout 1999 and unveiled a new economic program aimed at the reestablishment of fiscal discipline (International Monetary Fund, 2000a).

The program for 2000-2002 contained mutually enforcing policies of reduced expenditures and improved tax collection. A new tax package broadened the personal income tax and widened the base of the VAT to 21 percent. Also included in the program were improved tax enforcement measures, cuts in government expenditures totaling nearly 1% of GDP, and reductions in public sector nominal wages in an attempt to minimize the federal deficit (International Monetary Fund, 2000a). A new "federal commitment" between the central government and the provinces was expected to reduce provincial spending and limit the distribution of revenue transfers.[5] The authorities expressed confidence that a sustained recovery of growth would be achieved by the end of the year (International Monetary Fund, 2000a).

The IMF approved the three year stand-by credit in March of 2000, welcoming the administrations' pursuit of a strong economic program aimed at recovery and sustained growth. The Fund further welcomed Argentina's decisive action in pursuing responsible fiscal policies (International Monetary Fund, 2000b). However, IMF managers reiterated that a full economic recovery required the successful implementation of the program's fiscal measures. By

[5] The relationship between the federal government and the provinces is complicated in Argentina. Following passage of a revenue sharing agreement in 1994, the federal government is required to share a portion of national tax revenues with the provincial governments. However, as the combined level of provincial spending is often comparable to that of the central government, there is a loss of tax revenue and an increase in the debt burden at the federal level (Independent Evaluation Office, 2004: 26).

September, although Argentina was reporting a rebound in external competitiveness, there was a persistent deterioration of the fiscal position (International Monetary Fund, 2000c). Tax revenues had declined and the authorities were forced to announce a series of unpopular spending cuts – including a salary cut of 12 to 15 percent for civil servants earning more than Arg$1,000 per month – in order to meet fiscal targets. The authorities asked the IMF for a modification of the program's federal deficit target (an increase of 0.2% of GDP) and an increase in the ceiling of the consolidated public sector debt by 2.4 percent of GDP (International Monetary Fund, 2000c). In support of these modifications, Argentina announced a new set of expenditure cuts, a new agreement with the provinces, and a renewed dedication to improved tax compliance. Argentina maintained the opinion that a full economic recovery was on the way for 2001 (International Monetary Fund, 2000c).

Table 3-1 – Key Economic Indicators 1997-2001

	1997	**1998**	**1999**	**2000**	**2001**
GDP (in billions of Arg$)	292.9	298.9	283.3	285.0	291.3
GDP growth (percentage change)	8.1	3.9	-3.4	-0.8	-4.4
Terms of trade (2000=100)	102.2	96.6	94.6	100.0	99.3
Annual inflation (percent variation in CPI)	0.3	0.7	-1.8	-0.7	-1.5
Net foreign direct investment (in billions of U.S. Dollars)	5.5	5.0	22.3	9.5	2.0
Urban unemployment rate (percent)	14.9	12.9	14.3	15.1	17.4
Current account of the balance of payments (percent of GDP)	-4.1	-4.8	-4.2	-3.2	-1.4
Fiscal deficit (percent of GDP)	-1.4	-1.8	-3.0	-2.1	-3.8
Total gross external debt (in billions of U.S. Dollars)	130.0	147.6	152.6	155.0	166.3
Debt to GDP ratio (percent)	42.7	47.5	51.2	51.6	52.2
Debt to export ratio (percent)	420	473	546	498	533
Total accrued interest to export ratio (percent)	28.6	34.3	40.8	37.9	39.4

Sources: International Monetary Fund and United Nations Economic Commission for Latin America and the Caribbean

At the conclusion of Argentina's Article IV consultation in October of 2000, the IMF was fully aware of Argentina's precarious economic situation. GDP growth remained stagnant, the unemployment rate was rising (as was the external debt), public finances were deteriorating and market confidence was noticeably waning (International Monetary Fund, 2000d) (see Table 3-1). However, there was an improvement in Argentina's external position and the banking sector remained sound. IMF Directors continued to view fiscal policy as the key to Argentina's recovery and strongly encouraged the authorities to pursue credible fiscal consolidation. In their opinion, "a firm adherence to the requirements of the fiscal responsibility law, with its attendant reduction in the public debt-to-GDP ratio, would buttress confidence in international markets and ease financing conditions (October 3, 2000). However, the IMF also expressed cautious optimism about Argentina's economic prospects: "with an improved competitive position, both the current account and the public sector deficits on a declining path, and important structural reforms enacted or underway, the Argentine economy [is] now in a good underlying position to resume sustainable growth" (International Monetary Fund, 2000d).

Unfortunately, the aforementioned resumption of growth did not materialize, and economic conditions worsened at the end of the year. Recession was now ingrained, and the fiscal deficit was widening (Mussa, 2002: 27). Tax evasion was wide-spread and a rising unemployment rate necessitated greater spending on social safety nets, putting further pressure on the fiscal accounts. Market confidence in Argentina's economic program was waning amid concerns about the external debt and political scandals within the de la Rúa administration (Mussa, 2002). In mid August of 2000, rumors that federal lawmakers had taken bribes in return for quick passage of a Labor Reform bill began to circulate (Independent Evaluation Office, 2004: 99). The investigation ultimately led to the resignation of Vice President Carlos Álvarez in early October. The markets responded by increasing Argentina's country risk, which raised interest spreads to 750 basis points above U.S. Treasuries. Amid rumors that the poor economic situation might force a devaluation of the peso, depositors pulled more than $789 million out of the banking system during the month of October (Blustein, 2005: 88). A noticeable increase in the debt burden also fueled concerns that the country was headed for a default (Mussa, 2002: 33). Figure 3-2 shows that the total debt burden had grown to $155 billion and more than 50% of GDP by the end of 2000.

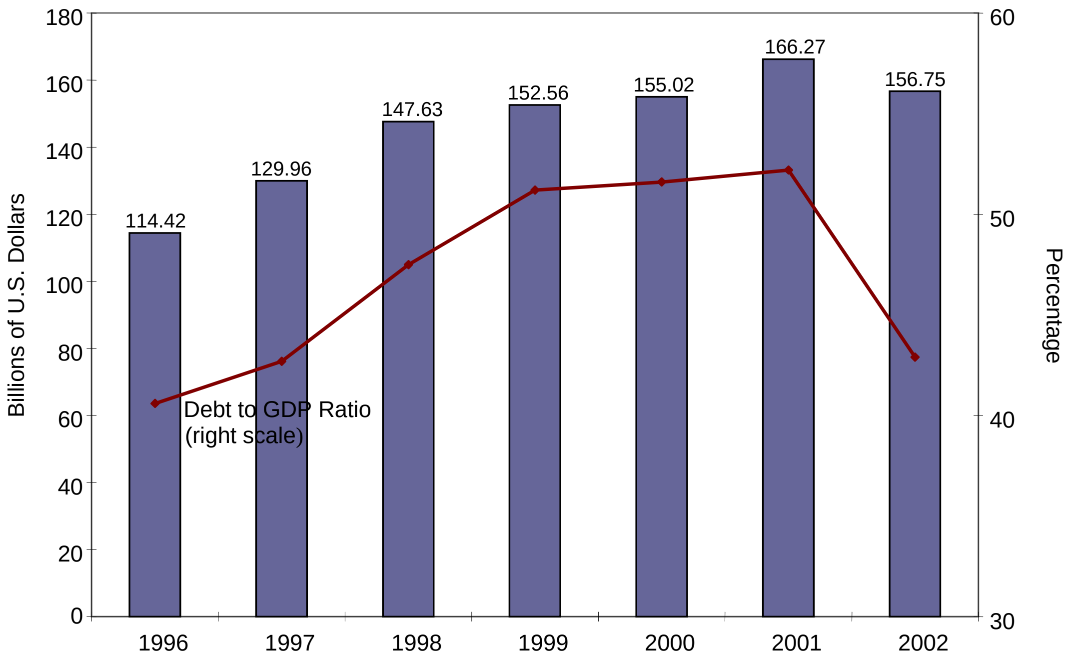

Figure 3-2. Gross External Debt as a Percentage of GDP 1996-2002. United Nations Economic Commission for Latin America and the Caribbean.

Faced with the possibility of being cut-off from international capital markets, on November10th President de la Rúa announced a new set of measures to cut spending, increase tax receipts and streamline social security contributions. He also announced a substantial funding arrangement with international financial institutions to improve access to capital markets and signaled the intention to draw upon funds available under Argentina's precautionary IMF stand-by facility. IMF Managing Director Horst Köhler immediately expressed full support for Argentina's new measures, commenting on the country's dedication and commitment to "significantly strengthening" economic policy (International Monetary Fund, 2000e).

On January 12, 2001, the IMF Executive Board unanimously approved Argentina's request for financial assistance and expressed its unconditional support of the country's policies. IMF Directors hoped that decisive support for the authorities' fiscal measures would reassure the market and buy Argentina some time to implement the agreed upon policies (Mussa, 2002). However, beneath the public declarations of strong support for Argentina's program, opinion was divided within the IMF over how to proceed (Independent Evaluation Office, 2004: 43). Executive directors had unanimously approved Argentina's disbursement, but for very distinct reasons. According to the report of the Independent Evaluation Office, one small group of directors believed that Argentina's fiscal policies were viable and the country would soon emerge from trouble. Another group, also a minority, believed that the program was unlikely to succeed, but agreed that Argentina should be given the benefit of the doubt based on its superior macroeconomic performance for most of the decade. The majority of Board members remained unconvinced that the funding package provided a lasting solution, and noted that many of the program targets were overly optimistic and potentially inconsistent (Independent Evaluation Office, 2004: 44). However, they agreed that restoration of market confidence was crucial to Argentina's recovery and recognized that IMF support was integral to stabilizing market fears. In addition, many IMF board members respected Argentina's dedicated attempts at serious reform and hoped for the best (Independent Evaluation Office, 2004: 43).

Unfortunately, Argentina's economic situation deteriorated rapidly at the start of 2001. Turkey's currency devaluation quickly became a crisis and the effects spilled over into international debt markets. The decision by Turkish authorities to abandon the currency peg sparked new concerns about the strength of the convertibility regime and interest spreads for Argentine sovereign debt climbed (Mussa, 2002: 36). Developments in Argentina's political situation were also troubling. In early March of 2001, Economic Minister Jose Luis Machinea resigned due to a growing lack of support within the Argentine cabinet and was replaced by Ricardo Lopez-Murphy (Mussa, 2002: 36). The new Economic Minister immediately proposed a program of fiscal consolidation, featuring substantial cuts in government spending. There was widespread outrage among Argentine politicians and most of Lopez-Murphy's fellow ministers about the new economic plan (Mussa, 2002: 37). Faced with a complete lack of support from President de la Rúa, Lopez-Murphy resigned after just two weeks. In Mussa's opinion, the minister's exit marked "the effective end to any realistic hope that the Argentine government would address its fiscal difficulties with sufficient resolve to avoid sovereign default and its attendant chaos" (Mussa, 2002: 37). The markets shared this opinion, and interest spreads rose to 1,000 basis points above U.S. Treasuries in March of 2001. With such high interest spreads, there was no realistic chance that Argentina could mount an economic recovery or hold its debt level stable. It was only a matter of time before the economy fell apart.

By early spring, Argentina's economic and financial situation was critical. Consistently high rates of tax evasion severely limited Argentina's ability to generate revenues, while persistent provincial deficits continued to worsen the country's fiscal position. With limited access to external capital markets and rising rates of interest, Argentina faced serious difficulty funding its financial obligations. The solution came in the form of an international bailout in

March of 2001, known as the *blindaje* (the Spanish term for shield or armor), which was fully supported and predominantly funded by the IMF (Independent Evaluation Office, 2004). The terms of the agreement called for the Fund to increase Argentina's Stand-By facility to 500% of quota (roughly $14 billion), and to allow authorities immediate access to the un-drawn portion of their agreement. Additional funding from the Inter-American Development Bank, the World Bank, the Spanish government and private sector institutions provided Argentina with almost $40 billion (Lischinsky, 2003: 95). Authorities hoped that the bailout would help Argentina meet future financial commitments without issuing more debt, and provide some breathing room to jump-start the economy (Independent Evaluation Office, 2004: 40). Upon news of the IMF support package, interest rate spreads on Argentine debt dropped by 200 basis points.

The return of Domingo Cavallo as Argentina's Economic Minister in mid-March briefly added to a restoration of confidence. However, it quickly became apparent that Cavallo's dedication to economic orthodoxy would not be as strong as his predecessors' and market sentiment soon changed (Independent Evaluation Office, 2004: 46). Mr. Cavallo immediately announced a detailed tax package, rather than spending cuts, to address the country's deteriorating fiscal position (Mussa, 2002: 38). Noting that efforts to improve tax compliance over the previous two years had been unsuccessful, the markets reacted poorly to the proposed tax plan and Argentina's long-term sovereign credit rating was downgraded at the end of March (Independent Evaluation Office, 2004: 100). Furthermore, it appeared that the once cooperative relationship between authorities and the IMF was drawing to a close, as Cavallo routinely announced important policy measures without prior consultation with the Fund (Independent Evaluation Office, 2004: 46, 61).

A series of events and economic policy pronouncements in the spring of 2001 only served to increase market concerns of an Argentine default. First, amid mounting concerns that Argentina' currency regime was unsustainable and that a devaluation was imminent, Cavallo announced a plan to alter the Convertibility Law to include the euro as a currency anchor (Independent Evaluation Office, 2004: 47). Under the plan, which was sent to Congress in mid-April and approved in mid-June, the Peso would be pegged to an equally weighted basket of the dollar and the euro, once the two currencies reached parity. According to Mussa, the economic rationale to alter convertibility may have had merit, but it sent the wrong signals to the market at a time when the restoration of market confidence was critical (Mussa, 2002: 39). The proposed changes to the currency regime reaffirmed fears that the system was unsustainable and caused a spike in interest spreads and a further lowering of Argentina's sovereign risk rating (Independent Evaluation Office, 2004: 100).

Less than two weeks later, there was trouble at the central bank. Bank President Pedro Pou – a widely respected figure in the international financial community -- openly disagreed with Cavallo's decision to add the euro to the currency basket and commented publicly that full dollarization was preferable to a relaxation of the convertibility regime (Powell, 2002: 10). Pou was also a staunch proponent of tight monetary policy and strongly rejected Cavallo's recommendations to pursue a more "accommodative" monetary policy at the central bank (Mussa, 2002: 39). In Pou's opinion, a loosening of monetary policy would only further weaken confidence in Argentina's economy (Powell, 2002: 11). Not long after these public disagreements with Mr. Cavallo, Pou found himself under investigation for money laundering. Many analysts considered the accusations against him to be purely political: Cavallo wanted a relaxation of monetary policy that the central bank would not support, but the head of the bank could only be dismissed for cause by presidential decree. It was widely believed that the money-laundering charges were a thinly veiled attempt to force Pou out, which finally occurred in late April. The international consensus was that the independence of the central bank had been severely compromised, underscoring an erosion of institutional credibility within Argentina (Powell, 2002: 10).

Finally, faced with a rapidly deteriorating debt profile, the Economic Minister announced a voluntary debt swap on existing government bonds in early May of 2001.[6] The objective of the plan was to alleviate Argentina's current debt burden in exchange for larger interest and principle payments down the road, presumably once the economic situation had improved (Mussa, 2002: 40). Bonds with short and medium-range maturities were exchanged for 7, 15 and 30 year instruments, with a projected savings of nearly $4.5 billion a year (Lischinsky, 2003: 95). Domestic bondholders, including national banks, were the primary target of the swap, but some external investors also took part in the exchange. The swap was successful from the standpoint that it generated much-needed cash for the country and alleviated debt servicing obligations in the near-term. However, the short-term benefits came at the cost of substantial increases in debt payments over the longer-term: authorities were projected to save only $12 billion in debt obligations between 2001 and 2005 at the expense of servicing $66 billion in debt after 2005 (Mussa, 2002: 40). Ultimately, in Mussa's opinion, the terms of the debt restructuring were so onerous that "the Argentine government was effectively declaring that it shared the market's assessment that sovereign default was virtually inevitable" (Mussa, 2002: 41).

However, the IMF continued to publicly support Argentina in hopes of bolstering market confidence. A press release by Horst Köhler after the May debt swap stated that the exchange deserved the "strong support of the international community" (International Monetary Fund,

[6] It was considered voluntary because it was not carried out under threat of default (Mussa, 2002: 39).

2001d). Furthermore, the Executive Board unanimously approved additional financing for Argentina under a scheduled May review of the country's program. However, internal IMF documents show that institutional support for Argentina's economy was waning. Privately, Fund Directors' "assessments of the economic outlook and the program's prospects were bleak," suggesting that the IMF continued to support Argentina out of a sense of responsibility rather than of confidence (Independent Evaluation Office, 2004: 49).

Meanwhile, lack of market confidence continued to undermine Argentina's economic position as interest spreads went higher during the summer of 2001.[7] Persistent rumors of the collapse of convertibility led depositors to pull their money out of Argentine banks, and the government was running low on cash. As Mussa explains, "something needed to be done quickly, or the game was about to end" (2002: 41). In a final effort to regain control of fiscal policy, Cavallo announced a "zero-deficit" program in July that aimed to eliminate the federal deficit beginning in August (Independent Evaluation Office, 2004: 100). The plan focused on a combination of spending cuts and tax increases, as well as a new agreement with the provinces. The IMF publicly supported the effort and in September extended an additional $8 billion in financial assistance to the program, bringing total IMF commitments in Argentina to $22 billion. Again, the IMF stated that the authorities' efforts, and the program, deserved the "strong support of the international community" (International Monetary Fund, 2001f).

Privately, however, there were serious reservations about the program's chances. In a telling (and unprecedented) move, two Executive Directors abstained from voting on the disbursement of additional funds, claiming that the program targets were unrealistic and that

[7] Cavallo (2004) argues that remarks made by U.S. Treasury secretary Paul O'Neill throughout the summer fueled the loss of market confidence. In controversial statements to The Economist in July of 2001, O'Neill blamed Argentines for the country's dire economic straits: "[Argentines] have been off and on in trouble for 70 years or more. They don't have any export industry to speak of at all. And they like it that way. Nobody forced them to be what they are….You think five years from now anyone will remember this?" (New York Times, 2001).

"Argentina's efforts were proving futile" (de Beaufort Wijnholds, 2003: 113). There was general consensus that the fiscal targets were overly optimistic given the deteriorating level of political support for economic adjustments (Mussa, 2002: 49). Senior IMF staff gave the program a 20 to 30 percent chance of success, but supported it largely because of Argentina's importance for regional stability (Independent Evaluation Office, 2004: 53). Most importantly, the IMF did not want to be seen as abandoning Argentina in its time of dire economic need.

The Inevitability of Collapse

The failure of the zero-deficit program in October marked the beginning of the end for Argentina. Interest spreads rose to 2,000 basis points by the end of October (Independent Evaluation Office, 2004: 56). By November, the government was once again short of cash to pay its debt servicing. A new "voluntary" debt swap kept Argentina solvent, but caused Standard and Poor's to officially downgrade Argentina's sovereign rating to SD (selective default) (Independent Evaluation Office, 2004: 100). By the end of the year, Moody's and Fitch IBCA had also downgraded Argentina (Table 3-2). Meanwhile, IMF managers debated whether a scheduled program review in December would move forward.

Table 3-2 – Sovereign Debt Ratings 1999-2004

	1999	**2000**	**2001**	**2002**	**2003**	**2004**
Moodys	B1	B1	Ca	Ca	Caa1	Caa1
Standard and Poor's	BB	BB-	SD	SD	SD	SD
Fitch IBCA	BB	BB	DDD	DDD	DDD	DDD

Source: Latin Focus

Rumors of the imminent collapse of the convertibility regime led to a bank run between November 28th and 30th in which nearly \$3.6 billion in bank deposits was lost in just three days (Independent Evaluation Office, 2004: 57). For 2001 as a whole, bank withdrawals totaled \$15 billion, or nearly 20 percent of all deposits (see Figure 3-3). The banking system was in crisis.

The authorities announced a bank freeze, the *corralito,* on December 1st, limiting weekly withdrawals to just $250 and prohibiting money transfers abroad except as related to trade.[8] The move sparked wide-spread protests in Argentina, and, in the eyes of the IMF, undermined the fundamental principle of convertibility: "the interchangeability of dollars and pesos, and the guarantee that the nation's monetary authorities would furnish dollars freely to anyone with a legitimate claim on them" (Blustein, 2005: xxi). On December 5th, the IMF announced in a press release that management was "unable, at this stage, to recommend completion of the review of the program," cutting off further financial assistance and sealing Argentina's fate (International Monetary Fund, 2001g).

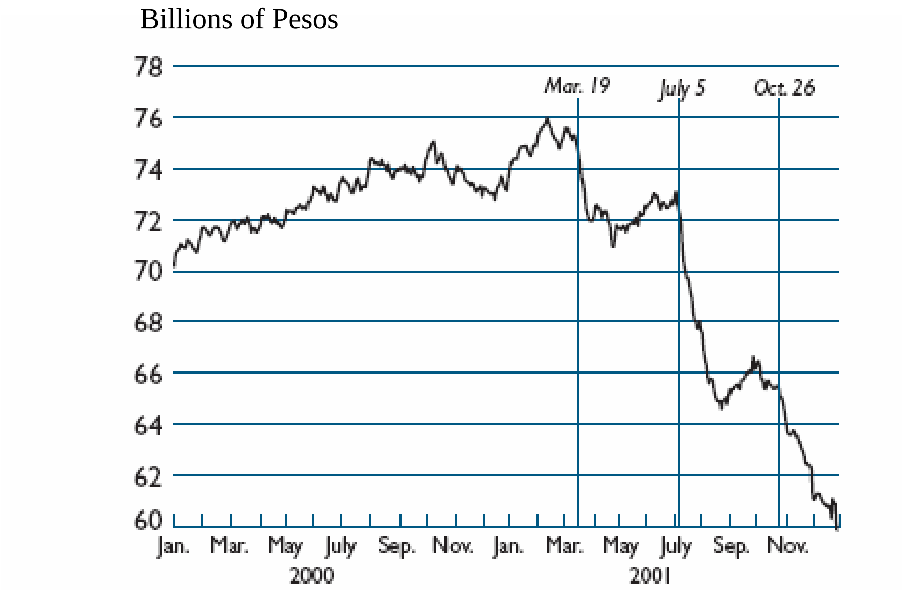

Figure 3-3. Bank Deposits January 3, 2000 – December 31, 2001. International Monetary Fund.

Following a national strike and violent protests against the country's bank freeze, Domingo Cavallo resigned on December 19th. President de la Rúa resigned the following day sparking a succession of four interim Presidents in less than two weeks. Adolfo Rodriguez Saá,

[8] *Corralito* translates to 'little fence' in English. The policy essentially 'fenced-off' financial assets to prevent a continuation of the bank run.

who controlled the Presidency for less than a week, declared a partial default on Argentina's debt on December 23rd (Independent Evaluation Office, 2004: 100). The Convertibility Law was officially dismantled on January 3rd following the inauguration of President Eduardo Duhalde, and a dual exchange rate policy was announced on January 6th.[9] IMF staffers informed the authorities that no new support package could be discussed while the country engaged in a dual exchange system (Independent Evaluation Office, 2004: 58). Although Duhalde publicly engaged in anti-market and anti-IMF rhetoric after his inauguration – largely in an attempt to placate angry Argentines -- he understood the necessity to regain the confidence of the IMF in order to emerge quickly from the crisis (Corrales, 2002: 38). As a result, he did away with the dual exchange rate policy. In return, the IMF announced a one year extension of the repayment deadline on the country's IMF loans (International Monetary Fund, 2002a).

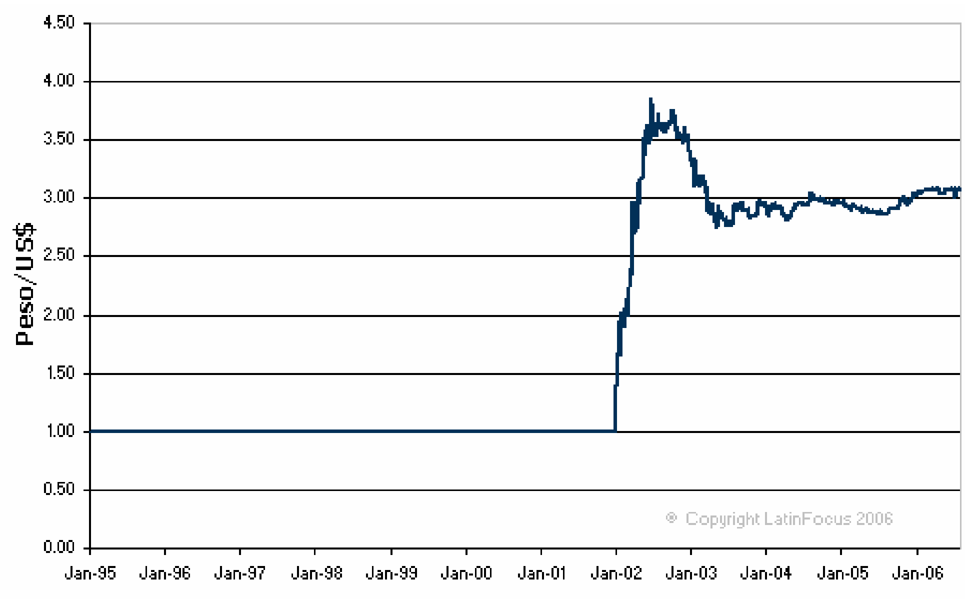

Figure 3-4. Exchange Rate 1995-2006. Latin Focus

Meanwhile in the banking sector, the end of convertibility and the announced default left banks with "a significant loss in the value of their assets" (Barajas, et al., 2006: 5). A prudent

[9] One rate, used for all foreign trade transactions, was fixed at 1.4 pesos to the dollar; the other was a free float.

approach to the conversion of bank accounts after the crisis could have avoided a full collapse of the banking system. Unfortunately, authorities proceeded with an uneven "pesification"[10] of bank balance sheets in a move that Mussa attributes to "political exigency rather than sound economics" (Mussa, 2002: 53). On February 3rd, authorities announced that bank loans would be converted to depreciated pesos at a rate of one peso to the dollar, while deposits would be converted at 1.4 pesos to the dollar.[11] In other words, banks were required to pay depositors more than they would receive from borrowers (Blustein, 2005: 192). The result was wide-spread insolvency and the virtual collapse of the once-resilient banking system. The uneven pesification of assets left many Argentines without access to credit, and angered depositors who felt that their dollar-denominated assets should have been converted at a better rate. Many depositors sought legal recourse from the courts. The final blow to Argentina's economy came on March 8th, when the pesification of the country's external debt was carried out at the prevailing market exchange rate -- well above three pesos to the dollar (Figure 3-4). The result was a tripling of Argentina's debt burden and the largest sovereign default in history. Argentina's collapse was complete.

[10] Pesification refers to the conversion of dollar denominated assets and liabilities into pesos.
[11] At the time, the peso was trading at nearly 2 to 1.

CHAPTER 4
FACTORS CONTRIBUTING TO THE CRISIS

Given the spectacular nature of Argentina's crisis, it is prudent to examine the underlying causes of the collapse in an effort to understand what went wrong. The literature identifies a number of interrelated factors in the crisis, and Rodrik notes that, "as is usual after a debacle of such a magnitude, fingers have been pointed at enough culprits to explain the Argentine crash many times over" (Rodrik, 2002: 15). The clarity of hindsight makes the identification of critical events and policy choices possible, but it is important to remember that few observers of the Argentine drama realized that the country was on the path to disaster until relatively late in the game. In the words of IMF staffer Mark Allen: "the disaster looks much more certain in retrospect than it did at the time" (Allen, 2003: 139). A number of other IMF scholars have also asserted that the crisis was not a foregone conclusion. Michael Mussa argues that until the middle of 2001, "it was not clear that the Convertibility Plan was doomed to collapse in a catastrophic crisis" (Mussa, 2002: 24).[1]

There are a number of factors that contributed to Argentina's crisis, but opinion remains divided as to the relative weight of those factors (Bleaney, 2004: 699). In the opinion of this author, some of the most important causes include: the convertibility regime (see Krueger, 2002; Mussa, 2002; Ocampo, 2003); external shocks (see Kiguel, 2002; Fanelli, 2003); and weak fiscal policy (see Mussa, 2002; Krueger, 2002; Allen, 2003; Powell, 2002). Ocampo credits adverse market sentiment with sealing Argentina's fate in a perverse display of "irrational panic" that caused capital flight and soaring interest rates (Ocampo, 2003: 27).[2] The behavior (or misbehavior) of the IMF is another oft-cited cause of Argentina's woes (see MacEwan, 2002; Stiglitz, 2002; Ciblis, Weisbrot and Kar, 2002; Ciblis and Vuolo, 2005). The interaction of these

---

[1]This view may help to explain why the IMF continued lending to Argentina as late as September of 2001.
[2] Sevares (2002) blames Argentina's collapse on the unfortunate combination of all these factors.

factors caused the economic situation in Argentina to deteriorate quickly and severely. The following pages discuss, in detail, some of the most important causes of the crisis.

Convertibility

There is broad consensus that the rigidities of the convertibility plan greatly limited Argentina's options for adjustment in the face of an economic downturn. In hindsight, Argentina met very few of the criteria required for a successful currency peg.[3] Convertibility required very tight monetary conditions, and necessitated greater flexibility of prices and wages to keep the system afloat in the event of a shock (Independent Evaluation Office, 2004: 31). Prudent fiscal policy was also a necessary precondition for the long-term success of the program. Argentine authorities failed to properly implement policies that could have eased the constraints of convertibility. Krueger (2002) states that labor market flexibility was necessary to lower unemployment and increase competitiveness after the Brazilian devaluation, but the authorities' progress in implementing labor reform was limited. The substantial political power enjoyed by unions in Argentina is largely responsible for the failure of labor reform efforts (Independent Evaluation Office, 2004: 31).

Convertibility also led to a substantial overvaluation of the peso over time. Bleaney estimates that between 1995 and 2001, Argentina's real effective exchange rate appreciated by 35% against international currencies (Bleaney, 2004: 701). The strength of the peso in the wake of Brazil's devaluation in 1999 and the appreciation of the dollar against the euro in 2000 effectively crippled Argentina's export competitiveness and deepened the on-going recession.

---

[3] Sachs and Larrain state that dollarization (and similar systems involving hard currency pegs) only make sense under very specific circumstances: a) when a country's economy is very tightly integrated with that of the United States, b) when a country has a very small economy in which most prices are set in dollars and most goods are used in international trade, c) when a country has very flexible labor markets and d) when a country's central bank cannot be trusted to run its own currency in a stable way (1999: 87-88). The authors go on to state that "very few countries fit this profile…Argentina certainly does not" (1999: 88).

Under a floating exchange rate, Argentina could have devalued the peso in an attempt to counteract the loss of competitiveness. Convertibility made any consideration of devaluation impossible, as it ran the risk of weakening confidence in the entire system.[4]

Some observers have argued that an early exit from convertibility could have saved Argentina from collapse (see Krueger, 2002; de la Torre, Yeyati and Schmukler, 2002). According to this view, the end of 1997 would have been the last 'optimal' time for Argentina to abandon its currency peg: the country had rebounded from the Mexican crisis and regained full access to international capital markets, and economic growth was strong. Without the benefit of hindsight, however, it was not clear that the country required a different exchange rate system. The biggest shock to convertibility came after Brazil's devaluation in January of 1999. There was no credible way for authorities or IMF staffers to have predicted Brazil's devaluation. Arguments that Argentina should have abandoned its currency peg in the late 1990s therefore hinge on an ex post, rather than ex ante analysis of events.

The authorities elected to maintain the currency peg for a number of reasons. In addition to being the centerpiece of the country's economic program, convertibility was an ingrained part of Argentina's social contract and enjoyed considerable support (de la Torre, Yeyati and Schmukler, 2002: 11). Economically, it was the "master contract" that laid the foundation for all financial transactions and sustained money as a store of value (de la Torre, et al., 2002: 11). Convertibility was also responsible for eliminating the economic instability and hyperinflation of the 1980s and restoring badly-needed economic credibility. It therefore commanded considerable political support from the public. Furthermore, the program's sustained success for much of the 1990s became a source of political legitimacy. The system enjoyed strong popular

[4] J. Onno de Beaufort Wijnholds argues that once "confidence wanes under a currency board regime, the risk of a crisis is probably (much) greater than under a system of floating exchange rates" (2003: 110). Argentina learned this lesson in 1981 when a loss of confidence in the *tablita* system resulted in prolonged economic crisis.

support, and during the presidential elections in 1999, both leading candidates pledged to maintain and strengthen convertibility (Corrales, 2002). When the system came under increasing pressure in 2000 and 2001, there were whispers of full dollarization (see Blustein, 2005) followed by the decision to alter the peg to include the euro, but there was never serious discussion of abandoning the system**.**

Fiscal Policy

Lack of fiscal discipline is often cited as another fundamental cause of Argentina's economic collapse. This opinion is shared by most IMF insiders who have written about the crisis (see Mussa, 2002; Krueger, 2002; Allen, 2003; De Beaufort Wijnholds, 2003). In his assessment of events, J. Onno de Beaufort Wijnholds refers to Argentina's "endemic lack of fiscal discipline" during the pre-crisis period (2003: 107). Michael Mussa also blames Argentina's neglect of fiscal priorities noting that "the chronic inability of Argentine authorities to maintain a responsible fiscal policy" was "the fundamental cause of disaster" (Mussa, 2002: 10). Teijeiro (2001) is the most vocal Argentine proponent of the notion that inconsistent fiscal policy is to blame for the country's crisis.[5] Between 1999 and 2001, increases in government spending, particularly in the provinces, coupled with the reduction of tax revenues fueled sizeable fiscal deficits (see Figure 4-1). In the opinion of the IMF, the deterioration of the fiscal position should have been counteracted by spending cuts and a tightening of tax compliance to increase revenues. But political support for fiscal austerity was notably absent in Argentina, even at the highest levels of government (see Independent Evaluation Office, 2004). President de la Rúa's failure to support the orthodox fiscal initiatives of economic ministers Machinea and Lopez-Murphy underscores that point.

[5] Domingo Cavallo cites the lack of fiscal discipline by provincial governments as the fundamental domestic cause of the Argentina's recession (2004: 142).

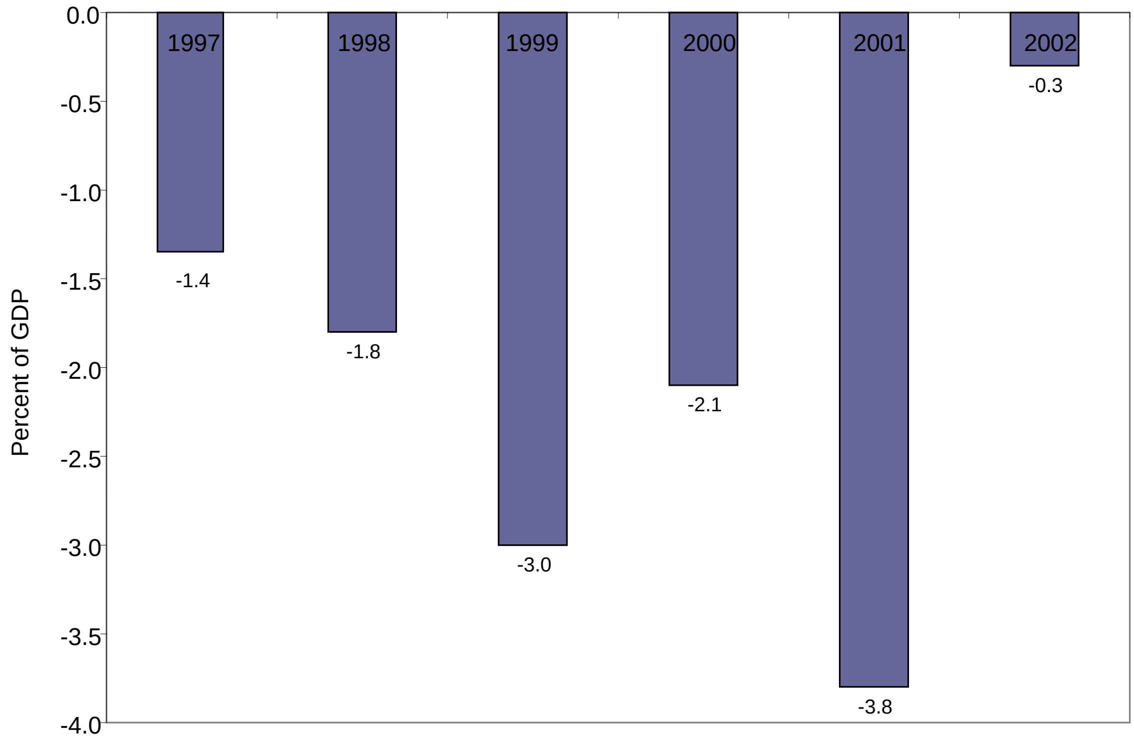

Figure 4-1. Fiscal Deficit 1997-2001. United Nations Economic Commission for Latin America and the Caribbean

The country's fiscal position was so problematic because it required extensive borrowing to balance the budget, which increased the debt burden (Krueger, 2002). Powell argues that Argentina's easy access to foreign capital during the 1990s may have lessened the authorities' dedication to tight fiscal policy because shortfalls could be covered by more borrowing (Powell, 2002: 17). As the country increasingly found itself shut out of international markets, however, the deficit became a serious problem. In hindsight, many analysts agree that Argentina should have been more dedicated to improving the fiscal accounts during years of high growth, to compensate for periods of economic contraction (Kiguel, 2002; Birdsall, 2002).

Outside of the IMF, there is less agreement that lax fiscal policies and growing fiscal deficits were to blame. Some scholars argue that the fiscal deficit was more a consequence than a cause of the crisis (see Weisbrot and Baker, 2002; Ciblis and Vuolo, 2005). According to

Lischinsky (2003), the deteriorating fiscal position was due in large part to external shocks, rather than a concerted increase in public spending. Furthermore, there is some agreement that the level of the fiscal deficit was within reasonable limits (especially during a prolonged recession), and can therefore not be blamed for the crisis (Lischinsky, 2003; Weisbrot and Baker, 2002). According to this view, insistence on fiscal austerity, rather than a fiscal deterioration, is the root cause of the crisis (MacEwan, 2002; Stiglitz, 2002). Joseph Stiglitz has written extensively on this issue, and argues that running a moderate fiscal deficit during recession is necessary to avoid a further contraction of growth and a deepening of recession (Stiglitz, 2002). In the opinion of this author, however, Argentina's worsening fiscal position did pose a problem, because it led to greater foreign borrowing and more debt.

Debt Sustainability

The size and behavior of Argentina's external debt clearly contributed to the crisis. However, there is some discussion within the literature as to whether Argentina's debt profile was truly unsustainable. The fact that Argentina ran out of money to pay its debt service in May, and again in September of 2001, suggests that the country's debt was not manageable. However, Kiguel (2002) argues that, at least at the end of 2000, the country's debt level was not particularly high by international standards (Kiguel, 2002: 97). Mussa notes that many industrialized countries manage debt levels between 50 and 100 percent of GDP or greater (Mussa, 2002: 16). Furthermore, the Maastricht criteria ceiling of a 60 percent debt-to-GDP ratio for the economies of the European Union became widely adopted as an international standard for debt sustainability (Allen, 2003: 138). Utilizing the above-mentioned criteria, Argentina's debt level of roughly 50 percent of GDP should not have posed a problem (see Figure 3-2).

However, Mussa and others argue that falling below the Maastricht level does not necessarily prove sustainability because the behavior of debt is just as important as the total level of debt (Mussa, 2002: 16). Argentina's debt level increased noticeably between 1998 and 2001. In addition to an increase in the overall level of external debt, there were also substantial increases in the debt-to-GDP and debt-to-export ratios. Furthermore, the relatively high ratio of accrued interest to exports (an indicator of debt servicing) clearly signaled that Argentina was facing an insolvency problem. The relatively small size of Argentina's trade sector as a percentage of GDP contributed greatly to the debt problem (Goldstein, 2003: 9). Export revenues were expected to cover debt servicing, but between 1999 and 2001 a contraction of exports coincided with an increase in foreign borrowing, thereby increasing the debt burden substantially. By the end of 2001, Argentina simply ran out of cash to pay its debt service and was forced to declare a default.

The Role of the IMF

The International Monetary Fund has faced substantial criticism in the wake of Argentina's crisis. Some critics fault the institution for failing to prevent the collapse in the first place, arguing that the fundamental purpose of Fund surveillance is crisis-prevention. Others assert that the Fund's flawed policy recommendations actually caused the crisis to occur (see Stiglitz, 2002; Ciblis and Vuolo, 2005). The popular opinion of many Argentines is that the IMF led Argentina down the path of neo-liberal policies, only to be abandoned when those policies resulted in economic collapse (Kirchner, 2005).[6] The IMF found itself in an impossible position as Argentina's economy deteriorated between 1999 and 2001. On one hand, the Fund fully supported the country's economic program, but recognized that the system was beginning to

[6] Argentine economist Mario Teijeiro claims that the IMF has become a convenient scapegoat for the failed policies of the national authorities (Teijeiro, 2005a: 3).

break down. On the other hand, there was a clear understanding that abandoning support for Argentina would have led to the imminent collapse of the country's economy (Powell, 2002: 2). With regard to the IMF's handling of the Argentine crisis, the literature outlines three central sources of criticism: the Fund's insistence on contractionary policies; the decision to support the convertibility regime when it had arguably become unsustainable; and the extension of an $8 billion disbursement in September of 2001.

Joseph Stiglitz is one of the most fervent critics of the IMF's handling of Argentina. In a 2002 article, he argues that the IMF's fiscal recommendations precipitated Argentina's crisis, going so far as to state that if Argentina had fully implemented the spending cuts recommended by the Fund "the economic collapse would have been even faster" (Stiglitz, 2002: 2). Criticism of the Fund's persistent calls for reduced spending dates back to the East Asian crisis of 1997. The basic argument is that an insistence on fiscal austerity in the middle of a recession often leads to a deepening of recession and a further contraction of economic growth, rather than a recovery of productivity. Proponents of this view argue that fiscal stimulus is often called for when industrialized nations like the United States face economic downturns (Stiglitz, 2002). The implication is that, had the IMF supported greater flexibility in fiscal spending, the crisis in Argentina might have been avoided.

A number of scholars disagree with the assertion that the Fund's fiscal policy recommendations were flawed. Feldstein argues that the contractionary policies pursued in the years before the crisis were necessary under the currency board arrangement that Argentina had committed itself to (Feldstein, 2002: 13). Furthermore, there is very little evidence that the IMF forced Argentina to implement policies. It is true that the IMF attaches certain conditions to its programs, generally in the form of monetary and fiscal targets that must be met in order to receive financing. As a financial institution, the IMF has the right to subject borrowers to conditionality (Buira, 2003). However, the authorities also enjoy the right to refuse Fund financing based on that conditionality. Argentina approached the Fund to negotiate an economic program, thereby agreeing to the fiscal conditions established by the IMF. The authorities "understood the risk that they were taking at least as well as the IMF staff did" (Feldstein, 2002: 13). Ultimately, Argentina was the sole architect of its economic program (Teijeiro, 2002: 3).

Furthermore, the literature suggests that Argentina's crisis was not a case of too much austerity, but rather too little. There is substantial evidence that Argentina never fully committed to the spending cuts recommended by the IMF. Therefore, a more compelling criticism is that the Fund should have pressed the authorities harder to comply with their program. According to IMF insiders, although the institution has gained a reputation for being tough on clients, "the tendency in the Fund is to give the benefit of the doubt, sometimes the overwhelming benefit of the doubt to the member" (Mussa, 2002: 69). This was arguably the case in Argentina. The country persistently exceeded the fiscal targets of its program, yet continued to enjoy the full support of the IMF. Teijeiro argues that the Fund's primary mistake was a failure to properly advise against the perverse consequences of expansionary fiscal policy (2005a: 2). Mussa concurs, stating that the Fund's "inadequate attention to the failures of Argentine fiscal policy" represents the institution's greatest failure (2002: 69). Allen faults the Fund for being "excessively indulgent" with Argentina by permitting routine slippages in fiscal policy throughout the 1990s (2003: 146). In hindsight, most IMF analysts agree that the Fund should have been more forceful in urging Argentina to tighten its fiscal policies during the 90s, and more willing to suspend financing for failures to cut spending (Krueger, 2002; Mussa, 2002; Allen, 2003).

The IMF's continued support of Argentina's currency peg is another issue that has generated substantial criticism. Critics argue that the IMF should have pushed for an early exit to the convertibility regime.[7] In hindsight, this might have helped Argentina avoid economic collapse, but that was far from clear at the time (see Allen, 2003). As was mentioned earlier in this chapter, the degree of ownership for the convertibility program was high in Argentina. As such, IMF insiders argue that pushing for an alternative exchange rate policy would have fallen outside the mandate of the Fund. Deputy Managing Director Anne Krueger addressed this point in 2002, when she argued that "it is for a member – not for us – to choose its own exchange rate regime and to put in place the supporting policies necessary to maintain it. Our Articles of Agreement require us to support the basic policy strategy adopted by our members, as long as it has a reasonable chance of success" (Krueger, 2002).

Arguably, convertibility no longer stood a 'reasonable chance of success' by the middle of 2001. This opinion is shared by Mussa (2002) and the Independent Evaluation Office (2004). IMF managers therefore erred by failing to consider an alternative to convertibility until September of 2001 (Independent Evaluation Office, 2004: 50). In hindsight, the Fund should have explored alternatives before the failure of convertibility was imminent. The IMF can also be criticized for placing too much emphasis on Argentina's dedication to its exchange rate system. Ownership does not necessarily connote sustainability, and the IMF should be prepared *not* to support a strongly owned program if it fails to achieve its goals (Independent Evaluation Office, 2004: 71).

Critics cite the decision to provide Argentina with an additional $8 billion just three months before the crisis as another IMF failure. Based on the literature, it is difficult to justify the Fund's decision. By August of 2001, IMF managers agreed that Argentina's economic

[7] The ex post nature of this criticism has already been discussed.

policy had gone off track and that the country was headed for a crisis (Independent Evaluation Office, 2004: 51). Two Executive Directors felt that the program was so flawed that they abstained from voting at the scheduled program review, and argued that a disbursement would do little more than delay an inevitable crisis by a few months. However, the majority of Directors felt that the IMF had a moral obligation to continue supporting Argentina. Failure to approve the disbursement would have led to Argentina's immediate collapse. And while the odds were slim that $8 billion would be sufficient to deter a full-blown crisis, Directors felt that Argentina deserved the benefit of the doubt (Independent Evaluation Office, 2004).[8] Unfortunately, the Fund's decision not only failed to prevent a crisis, it facilitated massive capital flight in the closing weeks of 2001 and exacerbated the extent of Argentina's eventual collapse (Blustein, 2005).

Conclusions

Clearly, many things went wrong for Argentina between 1998 and the end of 2001. The Russian default caused a sharp reduction in international capital flows. A substantial deterioration in external competitiveness due to the Brazilian devaluation, the appreciation of the peso and the fall in Argentina's terms of trade greatly limited the country's ability to recover from recession. At the same time, a breakdown of political support weakened the country's economic program from within: spending cuts, labor reform, and stronger tax enforcement were essential economic adjustments that received little political support, even from the President (Corrales, 2002). As a result, the fiscal deficit nearly doubled as a percent of GDP between 2000 and 2001 (refer to Table 3-1). A perverse loss of market confidence beginning in 2000 put further pressure on the situation. The IMF offered its full support of Argentina in an attempt to

[8] In hindsight, Mussa argues that the IMF displayed a "failure of moral courage to make the difficult decision to decline substantial additional support for policies that no longer had any reasonable chance of success" (2002: 48).

restore international confidence in the economy, but ultimately no disbursement of funds or set of economic policies could stop the inevitable collapse. In retrospect, the IMF was overly lenient with Argentina by allowing repeated slippages of program targets. Furthermore, it is legitimate to argue that the IMF's decisions in the second half of 2001 (specifically the September disbursement), made Argentina's precarious economic situation more acute. However, the Argentine crisis cannot be blamed solely on the behavior (or misbehavior) of the IMF, as several factors contributed to the severity of the country's collapse.

By December of 2001, Argentina was in the midst of a currency, debt and banking crisis of unparalleled severity. Throughout 2002, the economic situation remained bleak: GDP growth fell by more than 10 percent that year, bringing the total contraction since 1999 to almost 20 percent. The banking sector was insolvent, the currency was heavily devalued, and the country defaulted on $95 billion in international debt, including $22 billion owed to the IMF. However, the authorities continued to negotiate with the Fund to put together an economic package for 2003 that would, hopefully, initiate a recovery.

CHAPTER 5
ARGENTINA'S RECOVERY AND BREAK WITH THE IMF

The events of 2001 and 2002 marked the most spectacular economic crisis in Argentina's history, and arguably one of the worst in Latin America. The country experienced a simultaneous currency, banking and debt crisis that inflicted a tremendous toll on the social welfare of many Argentines. Argentina's economic contraction – the worst in a decade – resulted in an unemployment rate above 20 percent. Furthermore, the failure of the banking system, precipitated by the uneven pesification of dollar-denominated deposits, cost many citizens their savings. As a result, poverty and indigence levels swelled in the aftermath of the crisis. The IMF estimates that more than 45 percent of Argentines fell below the poverty line after 2001, while one in five became indigent (International Monetary Fund, 2005).

Given the severity of Argentina's collapse, the prospects for economic recovery were uncertain. However, 2003 witnessed a rapid restoration of economic growth and productivity that widely surpassed expectations. Aided by a strong external position and very positive terms of trade, GDP growth topped 8 percent in 2003 (see Table 5-1). Following a sharp rise in inflation in 2002, consumer prices fell to manageable levels in 2003 and the country was even able to produce a small fiscal surplus by the end of the year. Although many Argentines blamed the IMF for failing to prevent the crisis, and protests against the institution were commonplace, the authorities continued to work with the Fund to establish a sustainable economic program for 2003. As economic recovery began to take hold, however, the once cooperative relationship between Argentina and the IMF began to wane. During his presidential campaign, Néstor Kirchner engaged in high levels of anti-market and anti-IMF rhetoric that resonated with voters and helped win him the election in May of 2003. Tensions between Argentina and the Fund culminated in the suspension of the IMF program in the summer of 2004. Not long after, the country engaged in a controversial debt restructuring that was widely criticized by the international financial community. In the wake of President Kirchner's open condemnation of the IMF during his address at the Summit of the Americas in November, 2005, there were concerns that Argentina might elect to default with the Fund. Instead, Argentina cut ties with the institution, paying off the IMF in full, more than three years ahead of schedule.[1]

Table 5-1 – Key Economic Indicators 2002-2006

	2002	**2003**	**2004**	**2005**	**2006**
GDP (in billions of Arg$)	235.2	256.0	279.1	304.8	330.6
GDP growth (annual percentage change)	-10.9	8.8	9.0	9.2	8.5
Terms of trade (2000=100)	98.7	107.2	109.2	106.9	111.8
Annual inflation (percent variation in CPI)	25.9	13.4	4.4	9.6	10.9
Net foreign direct investment (in millions of U.S. Dollars)	2776	878	3832	3579	869
Population in poverty (percent)	53.0	47.8	40.2	33.8	***
Population in extreme poverty (percent)	24.8	20.5	15.0	12.2	***
Urban unemployment rate (percent)	20.7	14.5	12.1	10.1	***
Current account of the balance of payments (percent of GDP)	8.9	6.3	2.1	1.9	2.5
Fiscal deficit/surplus(percent of GDP)	-0.6	0.2	2.0	0.4	1.0
Total gross external debt (in billions of U.S. Dollars)	156.8	164.7	171.1	113.5	106.8
Debt to GDP ratio (percent)	42.7	47.5	51.2	51.6	52.2
Debt to export ratio (percent)	538	479	431	245	197

Sources: International Monetary Fund and United Nations Economic Commission for Latin America and the Caribbean

Restoring Confidence in the Economy

For much of 2002, Argentina struggled to stabilize its economy. The unemployment rate soared to 20.8 percent, GDP growth continued to decline, and foreign direct investment flows ceased. Persistent political protests underscored the widespread loss of trust in economic and financial institutions. Substantial criticism was aimed at the IMF, which many Argentines openly blamed for the crisis. However, President Duhalde understood that cooperation with the

[1] Following the announcement, the government of Venezuela purchased Argentine bonds to help the country repay the Fund.

IMF was crucial to jumpstart an economic recovery, even if it was politically unpopular. As such, the authorities maintained an open, and generally cooperative, relationship with the Fund. An IMF mission to Argentina in March of 2002 focused on restoring confidence in all sectors of the economy (International Monetary Fund, 2002b). Inflation targeting, fiscal sustainability and the resumption of economic growth were the primary goals of IMF managers. Subsequent missions focused on securing the necessary broad base of support for a new economic program, including specific monetary and fiscal policies required to sustain a recovery. A budget amendment was passed by Congress in the first quarter of 2002, and the authorities negotiated a new agreement between the central government and the provinces in order to restore fiscal solvency, which the IMF considered " a sine qua non of a sustainable economic program" (International Monetary Fund, 2003b). The IMF also considered a fair and cooperative debt rescheduling with creditors to be a primary concern (International Monetary Fund, 2003b).[2]

Although the IMF considered fiscal sustainability and improved creditor relations to be the most pressing concerns for Argentina, the authorities' first priority was to strengthen institutional safety nets for the large numbers of citizens impacted by the crisis (International Monetary Fund, 2002c). In 2002 more than half of all Argentines had fallen into poverty, including almost 25 percent living in extreme poverty. The government made promises to its citizens that a restoration of economic growth would not occur at the expense of the poor. The IMF, for its part, acknowledged the need to maintain institutional protections for the poor while pursuing a recovery (International Monetary Fund, 2002c).

After a lengthy delay, Argentina approached the Fund with a comprehensive economic program in late 2002 (International Monetary Fund, 2002d). The program did not involve any

[2] Argentina had fallen into arrears with the World Bank, and the IMF strongly encouraged the authorities to improve its relationship with official creditors.

new financing, but it demonstrated to IMF managers that Argentina was committed to a sustained economic recovery. The primary goal of the arrangement was to restore business and consumer confidence. To achieve this, the authorities agreed to dismantle emergency measures initiated during the crisis, such as restrictions on bank deposits and foreign exchange (International Monetary Fund, 2003c). IMF managers encouraged Argentina to improve tax compliance and promote “fiscal discipline and responsibility at all levels of government” (International Monetary Fund, 2003b). Under the leadership of Roberto Lavagna as Argentina’s economic minister, the Fund was optimistic that the country would pursue prudent monetary and fiscal policies.

The economic program proceeded apace in early 2003 as an uncertain presidential election loomed. Former president Carlos Menem briefly threw his hat into the ring against Peronist candidate Néstor Kirchner, who campaigned successfully by denouncing the former’s neo-liberal policies (Campbell, 2006). Kirchner’s anti-IMF rhetoric struck a cord with voters who continued to blame the Fund for Argentina’s economic disaster, and his election was interpreted by some as an indication that Argentina would no longer be beholden to the interests of foreign creditors and international institutions (Gonzalez and Riley, 2004). The new president’s aversion to neo-liberal policies caused some concern at the IMF about the prospects for a cooperative relationship. However, in the fall of 2003, Kirchner agreed to a new IMF financing arrangement, to the surprise of many analysts.

In September of 2003, the administration asked the IMF for a three year stand-by arrangement totaling more than $12 billion, to assist with debt restructuring and the consolidation of fiscal policies. The bulk of Argentina’s program through 2006 was “based on continued prudent macroeconomic policies combined with a broadening and deepening of structural reforms and an orderly restructuring of sovereign debt" (International Monetary Fund, 2003c). The IMF welcomed Argentina's dedication to a responsible economic program and the normalization of creditor relations. Delays in announcing a satisfactory restructuring agreement were a source of tension with Argentina's foreign and private creditors. As part of its new IMF arrangement, Argentina agreed to pursue good-faith negotiations with creditors. The government announced that it was working toward a focused and equitable restructuring proposal, and that representative creditors had been invited to join discussions (International Monetary Fund, 2003c).[3] The IMF supported restructuring efforts as an integral part of Argentina's comprehensive economic recovery.

Not surprisingly, the economic program also focused predominantly on fiscal management. The new plan contained a substantial tax package that broadened the base of the VAT and a simplified the tax code (International Monetary Fund, 2003c). Also, at the recommendation of the IMF, Argentina agreed to the elimination of distortive tax measures implemented after the crisis, including heavy taxation of the export sector and a financial transactions tax. The program also contained commitments to renegotiate privatized utility contracts and raise rates. Following the crisis, Argentina implemented a temporary freeze on utility rates to ease the financial burden on poor households. However, the freeze remained in place even as unemployment and poverty levels began to decline. IMF Directors noted that the manipulation of rates was detrimental to the business environment and "could be putting a large burden on price adjustments" (International Monetary Fund, 2003b). They strongly encouraged the authorities to revise all price control policies.

[3] However, an initial restructuring proposal announced in late September was summarily rejected by creditors, and more than a year passed before Argentina submitted another offer. Creditors complained that Argentina blatantly ignored its pledge to pursue a restructuring arrangement in good-faith (see full discussion of Argentina's debt restructuring below) (Financial Times, 2005).

By the middle of 2004, Argentina had mounted an economic recovery that surpassed all expectations (Krueger, 2004). Argentina's stable, undervalued exchange rate and strong external position fostered export competitiveness. Argentina's terms of trade were the strongest in almost decade and export sales surged to $34.5 billion in 2004, generating a sizeable trade surplus. GDP growth was also larger than expected, topping 8 percent in both 2003 and 2004. The strength of Argentina's trade and current account balances resulted in the first fiscal surplus since before the crisis. The IMF considered Argentina's robust recovery "unequivocally good news" but cautioned that the resurgence of growth represented little more than a return to pre-crisis levels of economic activity and warned that further fiscal and monetary reforms were necessary to sustain medium and long-term growth (Krueger, 2004). Furthermore, the Fund was increasingly concerned that Argentina's dedication to prudent economics was waning.

The authorities frequently requested waivers for delays and slippages in the implementation of performance targets (International Monetary Fund, 2005). Congressional approval of a tax reform package, including the elimination of distortive export and financial transaction taxes was taking longer than expected, and little progress was made in the liberalization of private utility rates (International Monetary Fund, 2004a). Furthermore, there were growing concerns about the authorities' manipulation of the exchange rate. Argentina increasingly used monetary policy to maintain a depreciated peso (Porzecanski, 2005: 320). Although the peso had stabilized in international exchange markets since the crisis, it began to appreciate against neighboring currencies as Argentina's economy recovered. The government ordered the central bank to purchase excess dollars in the market, thereby keeping the exchange rate artificially undervalued. The IMF warned against the authorities' intervention in monetary policy, arguing that it was destructive to the business environment (International Monetary Fund, 2005).

There were also reservations about persistent increases in primary spending. The authorities justified the rise in social and primary expenditures on humanitarian grounds, but the Fund warned against the deterioration of fiscal accounts. The Fund saw prudent fiscal management as a necessary precondition for full recovery and an equitable settlement with defaulted creditors. Argentine authorities were increasingly at odds with the IMF over fiscal policies, and argued that poverty alleviation should take precedence over repayments to creditors (New York Times, 2004). The institutional relationship started to break down in July of 2004. In an unusually hard-line approach, the Fund cancelled a scheduled disbursement of more than $700 million for failure to meet fiscal targets.[4] Argentina subsequently released an official report on the 2001 crisis, in which the government declared its intention to reduce IMF commitments to the degree that fiscal and financial conditions would allow (Ministerio de Economía y Producción, 2004: 17). In August of 2004, Argentina indefinitely suspended its agreement with the IMF, citing that the country would no longer comply with the austerity measures recommended by the Fund.[5]

Debt Restructuring

Having escaped the IMF's "dictatorship," Argentina was free to negotiate a debt restructuring on its own terms (Bloomberg News, 2007c).[6] The authorities' settlement offer to

---

[4] The IMF's refusal to disburse funds at this juncture is intriguing. Prior to the crisis, the Fund never denied funding to Argentina, even when the country missed fiscal targets by wide margins. The July, 2004 decision may therefore have been an over-reaction to criticism that the Fund was too lenient before the crisis.

[5] Argentina suspended its IMF program but did not withdraw its membership from the institution. Argentina remains a full member of the IMF to this day.

[6] The motivation behind the suspension of Argentina's arrangement was predominantly political. President Kirchner earned substantial political capital by taking a popular hard-line approach with the Fund (Campbell, 2006). Furthermore, many analysts saw Argentina's separation from the Fund as a shrewd attempt to weaken creditor leverage in the pending debt restructuring (New York Times, 2004).

creditors ended up being the most controversial in sovereign default history. Argentina's default totaled more than $95 billion, making it "by far the largest and potentially most complex default the world has ever known" (Porzecanski, 2005: 317). Debt restructuring always implies a loss for investors. In large measure, however, the size of investor "haircuts" is proportional to a debtors' ability to pay and there is an implicit understanding that nations in default should be as responsible with creditors as economic conditions allow. This means that, based upon the debtors' ability to pay, creditors should receive as much of their original investment as possible. According to Porzecanski (2005), Argentina's debt restructuring demonstrated a blatant disregard for such good-faith conduct or the open and cooperative settlement of debt obligations.

The problem of "rogue creditors" who may hold up restructuring negotiations by holding out for more advantageous terms has been widely addressed in the literature (see Krueger, 2002; Porzecanski, 2005). However, little attention has been given to the concept of "rogue debtors" that may manipulate weaknesses in the legal framework to "walk away from financial obligations" (Porzecanski, 2005: 316). Private creditors have very little leverage in the legal system to demand better terms from governments that have a proven ability to pay. Similar to bankruptcy laws at a national level, the legal system tends to protect the rights of debtors against the claims of creditors in a sovereign default (Krueger, 2002).

Debt restructuring has historically been undertaken through a series of bilateral negotiations between the government in question and representative committees of bondholders or commercial banks (Porzecanski, 2005). Under this system, the debtor proposes terms and creditors respond with a counter offer until a full set of terms and conditions is mutually agreed upon by all parties. In other cases, a debtor may draft a settlement agreement in consultation with representative creditor committees. Once the terms of the restructuring are found acceptable by a majority of representatives, the government will propose the terms to all creditors “on a take-it-or-leave it basis” (Porzecanski, 2005: 323). Under this approach, creditors are encouraged to participate but those who opt out of the exchange are generally paid when their original investments come due.

Argentina’s approach to debt rescheduling followed neither of these historically-accepted paths. In September of 2003, Argentina announced its debt restructuring strategy, known as the “Dubai guidelines”, which amounted to debt forgiveness of almost 90 percent on a net present value basis (Porzecanski, 2005: 324).[7] The authorities also announced that arrears on interest payments from the previous two years would not be paid. Contrary to Argentina’s claims that it sought creditor input for the restructuring, the Dubai proposal received little investor support. Creditors adamantly opposed the terms, and some sought recourse in the legal system. As of January, 2004, more than 30 investor lawsuits filed in European courts resulted in judgments for the creditors (International Monetary Fund, 2004b: 18).[8] More than 20 lawsuits were filed in New York courts, including 4 class action suits against the Argentine government (International Monetary Fund, 2004b: 18)

Argentina announced another restructuring proposal in January of 2005. According to Ciblis and Vuolo, the terms of the so-called ‘Buenos Aires proposal’ represented “100% improvement for defaulted creditors” over the previous offer (2005: 22).[9] However, there was little substantive change in the terms of the restructuring, and Argentina stated its intention to limit repayment to 25 percent of the debt’s face value (Gonzalez and Riley, 2004). The new plan

---

[7] Argentina’s restructuring offer came to be known as the “Dubai guidelines” because the package was announced at the annual meeting of the IMF and World Bank, held in Dubai in September 2003. Ciblis and Vuolo estimate that debt forgiveness was closer to 75 percent in the Dubai proposal (Ciblis and Vuolo, 2005: 21). Others claim that at prevailing interest rates, Argentina’s offer amounted to an 85-90 percent haircut (Dhillon et al, 2006: 382).
[8] None of these cases resulted in the successful enforcement of claims against Argentine assets.
[9] This assertion is disputed by Porzecanski (2005) and Dhillon et al (2006).

offered a choice of three separate securities; a par bond, a discount bond, and a "quasi-par" bond. The par bond could be denominated in pesos, dollars, euros or yen and had a maturity of 35 years. There was no reduction of face value, but interest coupons paid just 1.33 percent for the first five years (Sturzenegger and Zettlemeyer, 2005: 40). The discount bond was exchanged at just 33.7 percent of face value (a 66.3 percent investor haircut) but offered substantially higher rates of interest for the duration of the bond. Finally, the "quasi-par" bond paid a higher face value than the discount bond (69.6 percent -- a 30.4 percent haircut) but paid just over 3 percent in interest (Sturzenegger and Zettlemeyer, 2005: 40). Similar to the Dubai proposal, arrears on interest accumulated between 2002 and 2003 would not be paid

In order to achieve maximum debt relief, the authorities placed monetary limitations on the bonds. For example, a $350,000 minimum was required to qualify for the quasi-par bond, reflecting the authorities' attempts to attract large pension funds. Meanwhile, investors with more than $50,000 in debt holdings were prohibited from accessing the par bond. No restrictions were attached to the discount bond. In effect, the authorities diverted as many creditors as possible into the bond that offered the greatest haircut on face value (Sturzenegger and Zettlemeyer, 2005: 41).[10] The terms of Argentina's debt restructuring were unusually harsh. Sturzenegger and Zettlemeyer estimate that the average haircut during the Argentine default was nearly 75 percent, the largest of any restructuring in recent history (2005: 63). In comparison, average haircuts associated with the Russian default of 1998 were closer to 60 percent, while Uruguay's restructuring in 2003 paid creditors nearly 90 percent of their original investment (Sturzenegger and Zettlemeyer, 2005).

[10] Interestingly, the new bonds contained Collective Action Clauses "allowing a super-majority of holders to overrule holdouts and alter the financial terms of the contract in any future restructuring" (Dhillon et al, 2006: 383).

Argentina's debt restructuring clearly diverged from the standards adhered to in other sovereign defaults. In addition to subjecting investors to unprecedented losses, the restructuring was not accompanied by the preferred endorsement of the IMF or any other multilateral agency (Porzecanski, 2005, Dhillon et al, 2006). Argentina's message to foreign creditors was clearly one of "take-it-or-leave-it". This was made clear in early February, 2005 when the legislature passed a law prohibiting the government from reopening debt restructuring negotiations. Despite objections that Argentina was "trying to bully people into accepting an unacceptable offer" 76 percent of bondholders decided that a repayment of just 25 cents on the dollar was preferable to not getting paid, and accepted the terms (The Financial Times, 2005).[11]

Given the fact that Argentina was financially well off (relatively speaking) at the time of the debt restructuring, it is unclear why creditors were subjected to such adverse terms of settlement. Aided by a high commodity prices and strong terms of trade, Argentina's export sector generated more than $34 billion in revenues at the end of 2004 (Porzecanski, 2005: 320). Healthy surpluses in the current and fiscal accounts, combined with the strong growth of international reserves suggest that Argentina had sufficient assets at the close of 2004 to settle with its creditors on more favorable terms. By some accounts, the country had access to as much as $21 billion in financial assets, including $6 billion in cash (Porzecanski, 2005: 320).

The large minority of creditors who chose not to participate in Argentina's debt exchange clearly agree that the country could afford to pay more. The Global Committee of Argentina Bondholders (GCAB), representing the 24 percent of investors that did not accept Argentina's terms, argues that the country's strong fiscal position should have made $7.2 billion available for

[11] The government of Argentina made it clear that the 2005 restructuring proposal was final, and bondholders who rejected the settlement would not be repaid. Furthermore, without an IMF agreement in place, creditors lost the ability to leverage a more equitable settlement through the Fund. For these reasons, a large majority of bondholders ultimately accepted the adverse terms of Argentina's offer.

debt servicing, compared to the $4.3 billion announced by the government. Furthermore, the GCAB maintains that Argentina did not act in good faith with creditors, despite promises to the IMF that it would. The group has pursued legal recourse against Argentina claiming that the adverse restructuring terms amount to the illegal expropriation of capital (Global Committee of Argentina Bondholders, 2005). It is unclear how successful the GCAB will be in court, given that Argentina enjoys sovereign immunity in most legal settings and has passed legislation prohibiting the re-opening of the default settlement.

Some scholars argue that Argentina's harsh treatment of creditors sets a dangerous precedent for debtor nations seeking relief in future defaults (Porzecanski, 2005). Financial analysts also feel that Argentina's restructuring succeeded in "dramatically lowering the cost of default and stripping power from creditors" (Financial Times, 2005). Porzecanski argues that the international community must utilize its diplomatic pressure to create "the financial incentives and disincentives" to persuade rogue debtors to deal with investors responsibly (2005: 327). However, in the case of Argentina, it appears that the international community enabled Argentina to behave irresponsibly. In January of 2004, investor lawsuits in New York State were widely expected to hinge upon a broad interpretation of so-called "*pari passu*" provisions in Argentina's bonds. A broad interpretation of these provisions would prohibit repayment to all creditors until Argentina paid investors that won judgments in the courts (International Monetary Fund, 2004b). Argentina subsequently asked the courts to narrowly interpret the provisions in question. To the extent that interrupted payments to the IMF and other U.S.-based financial entities under a broad construction of *pari passu* would be contrary to U.S. interests, the government filed briefs in support of Argentina's motion, effectively sanctioning Argentina's less-than-fair treatment of creditors (International Monetary Fund, 2004b).

Although Argentina successfully negotiated one of the least creditor-friendly defaults in history, the move has come at a cost. Argentina remains in default with a large minority of creditors, including the Paris Club.[12] The failure to normalize relations with Paris Club creditors has severely restricted Argentina's access to international capital markets. Sooner or later, the country will require full access to international capital, and will be forced to negotiate a new settlement with the Paris Club.[13]

Summit of the Americas

Following Argentina's debt restructuring, the relationship between authorities and the IMF was tense and uncooperative. Fund Directors scolded Argentina for its harsh treatment of defaulted creditors, and President Kirchner responded by calling the Fund "pathetic" (Bloomberg News, 2007a). The relationship suffered further strain when Kirchner publicly denounced the IMF during his inaugural address at the Summit of the Americas in Mar del Plata, Argentina in November of 2005. During his speech, Kirchner criticized the neo-liberal model of economic growth supported by the international financial community, and called for a new development paradigm focused on the improvement of social welfare (Kirchner, 2005). However, the bulk of Kirchner's address was devoted to the open condemnation of IMF involvement in Argentina. He denounced the IMF for imposing neo-liberal policies on the country and called upon the Fund to accept its share of responsibility for the crisis (Kirchner, 2005). He went on to criticize the IMF for its insistence on fiscal austerity at the expense of the poor, and condemned the institution for

[12] Paris Club creditors hold more than $6 billion in defaulted bonds.
[13] According to Club guidelines, however, debtor nations must agree to an IMF-sponsored economic program before a settlement can be accepted. It is unlikely that Argentina will be willing to approach the IMF for a new agreement any time soon. As such, it may take years for the country to officially settle with Paris Club investors.

a chronic refusal to support social spending (Kirchner, 2005: 3).[14] The speech was the final straw for Argentina's relationship with the Fund.

In early December, after firing Economic Minister Roberto Lavagna over disagreement about a new IMF financing arrangement, President Kirchner announced that Argentina would pay off its IMF obligations more than three years ahead of schedule (The Economist, 2005).[15] Kirchner enjoyed broad popular support to sever ties with the Fund, but his decision to pay in full drew criticism from a variety of politicians that considered the move unnecessary, unwise, and potentially costly (Torres, 2006: 10-11).[16] Argentina required substantial hard currency reserves to pay off its $9.8 billion debt to the IMF. The government of Venezuela offered its assistance by purchasing $496 million in Argentine bonds. The purchase was part of a larger initiative by Venezuelan president Hugo Chávez to supplant the presence of the IMF in Latin America.[17] Since 2005, Venezuela has become Argentina's largest creditor, purchasing more than $5 billion in bonds and promising to buy more. Argentina's break with the IMF marks the end of a sad and tumultuous history between the parties.

[14] The speech was met with applause at the Summit, but was less well-received by the international financial community.
[15] Argentina's decision came just 2 days after Brazil announced a similar plan.
[16] Argentina drew down a substantial portion of its international reserves to pay off the IMF. Former President Raúl Alfonsín was a vocal critic of that decision (see Torres, 2006).
[17] The plan has been successful: currently, IMF loans to Latin America total just $50 million. Chávez has also proposed creating a Bank of the South, an institution offering financial assistance to Latin American countries without the policy conditions attached by other international lenders (Bloomberg News, 2007b).

CHAPTER 6
CONCLUSION

The Argentine crisis of 2001 crippled Latin America's third largest economy and precipitated the largest and most complex sovereign default in history. The collapse of the country's decade-old convertibility system resulted in the failure of the banking system, widespread unemployment and soaring levels of poverty. Remarkably, Argentina has mounted a sustained recovery that has surpassed expectations. This thesis analyzed Argentina's collapse from the perspective of a longstanding relationship with the IMF.[1] The parties' conflictive relationship during the debt crisis era gave way to an open partnership in the 1990s when Argentina embarked on an unprecedented series of neo-liberal reforms. After the crisis, however, the relationship broke down and ended officially in December of 2005.[2]

In the absence of IMF supervision, Argentina's economy appears to be doing well. The country is enjoying a fifth straight year of strong macroeconomic performance. High commodity prices and sustained favorable terms of trade have helped the export sector, and real GDP growth has exceeded eight percent a year since economic recovery began in 2003. Observers predict the continuation of favorable economic conditions in the near-term (Table 6-1).

Table 6-1 – Key Economic Indicators 2007-2012

	2007	**2008**	**2009**	**2010**	**2011**	**2012**
Real GDP growth (%)	8	5.9	4.8	4.4	4.5	4.4
Consumer price inflation (avg; %)	8.9	11.7	10.3	8.2	6.9	5.9
Budget balance (% of GDP)	1.4	1	0.6	0.6	0.7	0.6
Current-account balance (% of GDP)	2.8	1.8	1.7	1.3	0.9	0.6
Lending rate (avg; %)	10	13	12	10.5	9	8.5
Exchange rate Ps:US$ (avg)	3.1	3.2	3.3	3.3	3.4	3.4

Source: Economist Intelligence Unit, 2007

[1] A history of Argentina's lending arrangement with the IMF is provided in Appendix D.
[2] There continue to be rhetorical exchanges in the press. In March of 2007, President Kirchner referred to "IMF dictatorship" in an address to Congress (Bloomberg News, 2007c).

Under the surface, however, several troubling trends suggest that Argentina's economy is not as stable as it appears at first glance. Overt government intervention in the economy has become problematic. Price controls have been widely implemented to keep inflationary pressures down, despite industry protests that price manipulation is bad for business (Economist Intelligence Unit, 2007c). The controls have had only limited success at curbing inflation. Levels of government spending that have "surpassed expectations even in an election year" are contributing to the rise in consumer prices (Financial Times, 2007). There are also troubling accusations that Argentina's National Statistics Institute (INDEC) has been underreporting inflation data. A scandal erupted in February of this year when President Kirchner replaced the head of INDEC with a political appointee. Subsequently, INDEC altered the parameters used to monitor monthly inflation, prompting skepticism about the reliability of official data (The Economist Intelligence Unit, 2007a). President Kirchner claims that inflation is easing and national data is accurate, but analysts contend that the official figures are suspiciously low.[3] Excessive spending, the failure of price controls and the manipulation of inflation data have some analysts speculating that a new inflationary crisis is looming (Financial Times, 2007).

Furthermore, Argentina's credit rating remains well-below investment grade, reflecting the fact that the country is still in default with Paris Club creditors. However, there are signs that the country may seek an accord with the group. After originally refusing to consider a settlement with Paris Club creditors if it required a new arrangement with the IMF, President Kirchner announced in early October of this year that Argentina is fully prepared to reach an accord (Bloomberg News, 2007e). This is a positive development. Argentina has been unable to fully

[3] The Economist Intelligence Unit reports that consumer prices in Argentina are nearly double the official figures (2007b).

re-enter international capital markets since default, and settling with creditors will help restore access to sources of international capital.

Findings

Argentina's 1991 Convertibility Plan was an ambitious economic program that aimed to curb inflation, stabilize the economy and restore positive economic growth. The plan required sweeping structural reforms and an adherence to monetary discipline, which Argentina was able to carryout with the assistance of the IMF. The country was rewarded with strong growth, portfolio investment and virtually unlimited access to international capital. However, while the international financial community applauded Argentina for its dedicated neo-liberal reforms, important weaknesses in the country's economic program went unchallenged. The prudent fiscal policies necessitated by the convertibility system were never fully implemented by authorities nor insisted upon by the IMF until recession turned into crisis. Furthermore, the country had become overly dependent on international capital flows by the late 1990s and was ill-prepared to manage its growing debt burden. These facts became painfully clear during the freefall of Argentina's economy in 2001.

This thesis shows that a number of interrelated factors contributed to the Argentine crisis. A series of adverse exogenous shocks at the end of the 1990s cut-off Argentina's access to foreign capital and severely weakened export competitiveness in the country's largest markets. Furthermore, the fixed exchange rate system limited Argentina's ability to withstand prolonged recession. Fiscal profligacy became a recurrent problem and the country's debt burden, which increased substantially between 1999 and 2001, eventually became unsustainable.[4]

Some observers hold the International Monetary Fund responsible for the crisis. Two fundamental purposes of the Fund are crisis prevention and crisis management: in the Argentine

[4] A perverse loss of market confidence in Argentina only added to this problem.

case, the Fund was not successful in either task. In retrospect, the institution was too lenient with Argentina (Mussa, 2002; Allen, 2003). Executive Directors placed too much importance on the authorities' record of solid economic performance during the early 1990s, and not enough on fiscal discipline. As the crisis deepened and economic policies began to fail, the IMF succumbed to misguided optimism that Argentina's bad luck would change. The Fund also took actions that exacerbated the extent of the collapse. The decision to disburse an additional $8 billion to the authorities in September, 2001 failed to stave off crisis but did succeed in fostering capital flight.[5] The IMF did fail to prevent Argentina's collapse. However, accusations that the IMF caused the crisis are misguided and rely too heavily on ex post considerations. A number of factors contributed to the severity of Argentina's collapse, many of which were outside the Fund's control. This thesis finds that the IMF did err to some extent in its approach to Argentina, but it did not cause the crisis.

Significance

Argentina's collapse is the largest and most severe in recent memory. The scale of the collapse was extensive in economic terms, but the repercussions to social welfare were also severe. Many Argentines lost everything after the collapse of the banking system, and poverty levels surged as a result. According to the IMF, nearly a quarter of all Argentines fell into *extreme* poverty after 2001. It is important to understand what went wrong in Argentina in order to prevent a similar crisis from occurring in the future. Furthermore, events in Argentina are significant because they call into question the appropriateness of the neo-liberal model of development. Argentina has largely abandoned the neo-liberal policies that it so enthusiastically embraced in the years before the crisis. In his Summit of the Americas address, President

[5] It is this author's opinion that the September disbursement represents the IMF's most egregious mistake in Argentina.

Kirchner outlined the country's new approach to development. Argentina now seeks an economic model that promotes growth with equity and values social progress and the eradication of poverty and social exclusion (Kirchner, 2005).

This rejection of neo-liberalism has implications for the business environment in Argentina. In the absence of IMF-sponsored liberalization policies there has been a noticeable increase in the level of government intervention in the economy and a deterioration of the business environment.[6] Price manipulation, bias against foreign investment and an uncertain legal environment send important negative signals to firms considering doing business in Argentina. Assuming that the country wants to attract foreign business, it will need to revise its policies and improve the business environment.

The IMF also has important lessons to learn from Argentina. The Fund has faced extensive criticism in the wake of Argentina's economic disaster, including accusations that the institution was primarily responsible for what happened. This thesis argues that, while the IMF may have erred in the management of the crisis, claims that the Fund was responsible for the collapse are unfounded. Criticism of the IMF's handling of Argentina has prompted calls for widespread institutional reform. Since the end of 2005, a number of countries have reduced their exposure to the IMF, electing instead to rely on international reserves to shield against economic downturn.[7] Several countries are now in a position to generate larger sums of emergency funding than the IMF can provide.[8] The economic power of the Fund has steadily decreased over the years, and now accounts for less than 6 percent of total world trade and an even smaller

---

[6] This is evidenced by the precipitous fall in foreign direct investment flows in recent years (see Table 5-1).

[7] Some nations have distanced themselves from the IMF solely to avoid the conditionality associated with Fund assistance. However, the Argentine experience has also led some countries to believe that their economies are better off without the help of the IMF. The strength of the current international economy has made it possible for many governments to "go it alone" economically.

[8] According to The Economist, eight East Asian countries have the ability to "command reserves worth about ten times the IMF total" (2006a).

proportion of international capital flows (Birdsall, 2003: 11). Furthermore, the lack of financial crises in recent years has left the Fund with a shrinking paycheck and little to do. The IMF covers its operating costs with the interest it receives on outstanding loans. In the absence of new borrowers, the IMF is running short of money and is projected to "live beyond its means by almost $300 million in 2009-10" (The Economist, 2006a).

The institution faces an uncertain future and needs to restore member confidence. One way to achieve this is to increase emerging economies' representation within the Fund. Currently, a country's voting rights are proportional to the amount of money it contributes, causing several developing economies to be substantially underrepresented (The Economist, 2006a). Greater equity in the voting process will help to restore member confidence, as well as ease the perception that the IMF serves the limited interests of industrialized countries (Birdsall, 2003).

Critics charge that the IMF faces "irrelevance unless it reinvents itself radically" (The Economist, 2006b). Other observers argue that in lieu of a major transformation, the IMF would do better to return to its roots overseeing the monetary and exchange rate policies of the global economy (Teijeiro, 2005a, 2005b). Developing countries remain susceptible to exchange rate manipulations and excessive fiscal spending that hinder economic growth. The IMF can be an effective lobbyist against the dangers of fiscal profligacy and excessive borrowing that put emerging economies at risk. The unprecedented access to international capital that emerging economies currently enjoy will not last indefinitely. Sooner or later, a new financial crisis will erupt that requires the support of the IMF.[9]

---

[9] The recent mortgage problems in U.S. and foreign markets underscore a weakness in the global financial system. Should these problems turn into a crisis, the IMF will again have a definitive purpose.

Limitations and Future Research

This thesis offers a comprehensive analysis of Argentina's 2001 crisis, from the perspective of the IMF's long-standing role in the country prior to and following the collapse. The study is limited because of time, language, and access to documents. On-going initiatives to improve institutional transparency at the International Monetary Fund have resulted in the greater public availability of Fund information. However, a number of documents, including internal memos and correspondence from Executive Directors remain inaccessible. Furthermore, Spanish language sources about Argentina's crisis were consulted in the production of this thesis, but language restrictions limited their use in the text.

It is too soon to tell if Argentina's economy has fully emerged from the crisis of 2001. Only six years have passed since the collapse, and Argentina's future is still uncertain. Although growth is strong, a number of troubling developments threaten to undermine Argentina's economic performance. More time is required to determine if the country has learned the lessons of 2001 and moved forward. Further research should focus on the viability of Argentina's current economic program in the long-term. Additionally, in the wake of Argentina's experience, there is a need to re-visit the issue of institutional reform at the IMF.

APPENDIX A
SELECTED ARTICLES OF AGREEMENT OF THE INTERNATIONAL MONETARY FUND

Article I – Purposes

The purposes of the International Monetary Fund are:

- (i) To promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems?
- (ii) To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.
- (iii) To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.
- (iv) To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.
- (v) To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.
- (vi) In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members.

The Fund shall be guided in all its policies and decisions by the purposes set forth in this Article.

Article II - Membership

Section 1. Original members

The original members of the Fund shall be those of the countries represented at the United Nations Monetary and Financial Conference whose governments accept membership before December 31, 1945.

Section 2. Other members

Membership shall be open to other countries at such times and in accordance with such terms as may be prescribed by the Board of Governors. These terms, including the terms for subscriptions, shall be based on principles consistent with those applied to other countries that are already members.

Article III - Quotas and Subscriptions

Section 1. Quotas and payment of subscriptions

Each member shall be assigned a quota expressed in special drawing rights. The quotas of the members represented at the United Nations Monetary and Financial Conference which accept membership before December 31, 1945 shall be those set forth in Schedule A. The quotas of other members shall be determined by the Board of Governors. The subscription of each member shall be equal to its quota and shall be paid in full to the Fund at the appropriate depository.

Section 2. Adjustment of quotas

(*a*) The Board of Governors shall at intervals of not more than five years conduct a general review, and if it deems it appropriate propose an adjustment, of the quotas of the members. It may also, if it thinks fit, consider at any other time the adjustment of any particular quota at the request of the member concerned.

(*b*) The Fund may at any time propose an increase in the quotas of those members of the Fund that were members on August 31, 1975 in proportion to their quotas on that date in a cumulative amount not in excess of amounts transferred under Article V, Section 12(*f*)(i) and (*j*) from the Special Disbursement Account to the General Resources Account.

(*c*) An eighty-five percent majority of the total voting power shall be required for any change in quotas.

(*d*) The quota of a member shall not be changed until the member has consented and until payment has been made unless payment is deemed to have been made in accordance with Section 3(*b*) of this Article.

Section 3. Payments when quotas are changed

(*a*) Each member which consents to an increase in its quota under Section 2(*a*) of this Article shall, within a period determined by the Fund, pay to the Fund twenty-five percent of the increase in special drawing rights, but the Board of Governors may prescribe that this payment may be made, on the same basis for all members, in whole or in part in the currencies of other members specified, with their concurrence, by the Fund, or in the member's own currency. A non-participant shall pay in the currencies of other members specified by the Fund, with their concurrence, a proportion of the increase corresponding to the proportion to be paid in special drawing rights by participants. The balance of the increase shall be paid by the member in its own currency. The Fund's holdings of a member's currency shall not be increased above the level at which they would be subject to charges under Article V, Section 8(*b*)(ii), as a result of payments by other members under this provision.

(*b*) Each member which consents to an increase in its quota under Section 2(*b*) of this Article shall be deemed to have paid to the Fund an amount of subscription equal to such increase.

(*c*) If a member consents to a reduction in its quota, the Fund shall, within sixty days, pay to the member an amount equal to the reduction. The payment shall be made in the member's currency and in such amount of special drawing rights or the currencies of other members specified, with their concurrence, by the Fund as is necessary to prevent the reduction of the Fund's holdings of the currency below the new quota, provided that in exceptional circumstances the Fund may reduce its holdings of the currency below the new quota by payment to the member in its own currency.

(*d*) A seventy percent majority of the total voting power shall be required for any decision under (*a*) above, except for the determination of a period and the specification of currencies under that provision.

Section 4. Substitution of securities for currency

The Fund shall accept from any member, in place of any part of the member's currency in the General Resources Account which in the judgment of the Fund is not needed for its operations and transactions, notes or similar obligations issued by the member or the depository designated by the member under Article XIII, Section 2, which shall be non-negotiable, non-interest bearing and payable at their face value on demand by crediting the account of the Fund in the designated depository. This Section shall apply not only to currency subscribed by members but also to any currency otherwise due to, or acquired by, the Fund and to be placed in the General Resources Account.

Article IV - Obligations Regarding Exchange Arrangements

Section 1. General obligations of members

Recognizing that the essential purpose of the international monetary system is to provide a framework that facilitates the exchange of goods, services, and capital among countries, and that sustains sound economic growth, and that a principal objective is the continuing development of the orderly underlying conditions that are necessary for financial and economic stability, each member undertakes to collaborate with the Fund and other members to assure orderly exchange arrangements and to promote a stable system of exchange rates. In particular, each member shall:

- (i) endeavor to direct its economic and financial policies toward the objective of fostering orderly economic growth with reasonable price stability, with due regard to its circumstances;
- (ii) seek to promote stability by fostering orderly underlying economic and financial conditions and a monetary system that does not tend to produce erratic disruptions;
- (iii) avoid manipulating exchange rates or the international monetary system in order to prevent effective balance of payments adjustment or to gain an unfair competitive advantage over other members; and

(iv) follow exchange policies compatible with the undertakings under this Section.

Section 2. General exchange arrangements

(*a*) Each member shall notify the Fund, within thirty days after the date of the second amendment of this Agreement, of the exchange arrangements it intends to apply in fulfillment of its obligations under Section 1 of this Article, and shall notify the Fund promptly of any changes in its exchange arrangements.

(*b*) Under an international monetary system of the kind prevailing on January 1, 1976, exchange arrangements may include (i) the maintenance by a member of a value for its currency in terms of the special drawing right or another denominator, other than gold, selected by the member, or (ii) cooperative arrangements by which members maintain the value of their currencies in relation to the value of the currency or currencies of other members, or (iii) other exchange arrangements of a member's choice.

(*c*) To accord with the development of the international monetary system, the Fund, by an eighty-five percent majority of the total voting power, may make provision for general exchange arrangements without limiting the right of members to have exchange arrangements of their choice consistent with the purposes of the Fund and the obligations under Section 1 of this Article.

Section 3. Surveillance over exchange arrangements

(*a*) The Fund shall oversee the international monetary system in order to ensure its effective operation, and shall oversee the compliance of each member with its obligations under Section 1 of this Article.

(*b*) In order to fulfill its functions under (*a*) above, the Fund shall exercise firm surveillance over the exchange rate policies of members, and shall adopt specific principles for the guidance of all members with respect to those policies. Each member shall provide the Fund with the information necessary for such surveillance, and, when requested by the Fund, shall consult with it on the member's exchange rate policies. The principles adopted by the Fund shall be consistent with cooperative arrangements by which members maintain the value of their currencies in relation to the value of the currency or currencies of other members, as well as with other exchange arrangements of a member's choice consistent with the purposes of the Fund and Section 1 of this Article. These principles shall respect the domestic social and political policies of members, and in applying these principles the Fund shall pay due regard to the circumstances of members.

Section 4. Par values

The Fund may determine, by an eighty-five percent majority of the total voting power, that international economic conditions permit the introduction of a widespread system of exchange arrangements based on stable but adjustable par values. The Fund shall make the determination on the basis of the underlying stability of the world economy, and for this purpose shall take into account price movements and rates of expansion in the economies of members. The determination shall be made in light of the evolution of the international monetary system, with particular reference to sources of liquidity, and, in order to ensure the effective operation of a system of par values, to arrangements under which both members in surplus and members in deficit in their balances of payments take prompt, effective, and symmetrical action to achieve adjustment, as well as to arrangements for intervention and the treatment of imbalances. Upon making such determination, the Fund shall notify members that the provisions of Schedule C apply.

Section 5. Separate currencies within a member's territories

(*a*) Action by a member with respect to its currency under this Article shall be deemed to apply to the separate currencies of all territories in respect of which the member has accepted this Agreement under Article XXXI, Section 2(*g*) unless the member declares that its action relates either to the metropolitan currency alone, or only to one or more specified separate currencies, or to the metropolitan currency and one or more specified separate currencies.

(*b*) Action by the Fund under this Article shall be deemed to relate to all currencies of a member referred to in (*a*) above unless the Fund declares otherwise.

Article VIII - General Obligations of Members

Section 1. Introduction

In addition to the obligations assumed under other articles of this Agreement, each member undertakes the obligations set out in this Article.

Section 2. Avoidance of restrictions on current payments

(*a*) Subject to the provisions of Article VII, Section 3(*b*) and Article XIV, Section 2, no member shall, without the approval of the Fund, impose restrictions on the making of payments and transfers for current international transactions.

(*b*) Exchange contracts which involve the currency of any member and which are contrary to the exchange control regulations of that member maintained or imposed consistently with this Agreement shall be unenforceable in the territories of any member. In addition, members may, by mutual accord, cooperate in measures for the purpose of making the exchange control regulations of either member more effective, provided that such measures and regulations are consistent with this Agreement.

Section 3. Avoidance of discriminatory currency practices

No member shall engage in, or permit any of its fiscal agencies referred to in Article V, Section 1 to engage in, any discriminatory currency arrangements or multiple currency practices, whether within or outside margins under Article IV or prescribed by or under Schedule C, except as authorized under this Agreement or approved by the Fund. If such arrangements and practices are engaged in at the date when this Agreement enters into force, the member concerned shall consult with the Fund as to their progressive removal unless they are maintained or imposed under Article XIV, Section 2, in which case the provisions of Section 3 of that Article shall apply.

Section 4. Convertibility of foreign-held balances

(*a*) Each member shall buy balances of its currency held by another member if the latter, in requesting the purchase, represents:

- (i) that the balances to be bought have been recently acquired as a result of current transactions; or
- (ii) that their conversion is needed for making payments for current transactions.

The buying member shall have the option to pay either in special drawing rights, subject to Article XIX, Section 4, or in the currency of the member making the request.

(*b*) The obligation in (*a*) above shall not apply when:

- (i) the convertibility of the balances has been restricted consistently with Section 2 of this Article or Article VI, Section 3;
- (ii) the balances have accumulated as a result of transactions effected before the removal by a member of restrictions maintained or imposed under Article XIV, Section 2;
- (iii) the balances have been acquired contrary to the exchange regulations of the member which is asked to buy them;
- (iv) the currency of the member requesting the purchase has been declared scarce under Article VII, Section 3(*a*); or
- (v) the member requested to make the purchase is for any reason not entitled to buy currencies of other members from the Fund for its own currency.

Section 5. Furnishing of information

(*a*) The Fund may require members to furnish it with such information as it deems necessary for its activities, including, as the minimum necessary for the effective discharge of the Fund's duties, national data on the following matters:

- (i) official holdings at home and abroad of (1) gold, (2) foreign exchange;
- (ii) holdings at home and abroad by banking and financial agencies, other than official agencies, of (1) gold, (2) foreign exchange;
- (iii) production of gold;
- (iv) gold exports and imports according to countries of destination and origin;
- (v) total exports and imports of merchandise, in terms of local currency values, according to countries of destination and origin;

(vi) international balance of payments, including (1) trade in goods and services, (2) gold transactions, (3) known capital transactions, and (4) other items;

(vii) international investment position, i.e., investments within the territories of the member owned abroad and investments abroad owned by persons in its territories so far as it is possible to furnish this information;

(viii) national income;

(ix) price indices, i.e., indices of commodity prices in wholesale and retail markets and of export and import prices;

(x) buying and selling rates for foreign currencies;

(xi) exchange controls, i.e., a comprehensive statement of exchange controls in effect at the time of assuming membership in the Fund and details of subsequent changes as they occur; and

(xii) where official clearing arrangements exist, details of amounts awaiting clearance in respect of commercial and financial transactions, and of the length of time during which such arrears have been outstanding.

(*b*) In requesting information the Fund shall take into consideration the varying ability of members to furnish the data requested. Members shall be under no obligation to furnish information in such detail that the affairs of individuals or corporations are disclosed. Members undertake, however, to furnish the desired information in as detailed and accurate a manner as is practicable and, so far as possible, to avoid mere estimates.

(*c*) The Fund may arrange to obtain further information by agreement with members. It shall act as a centre for the collection and exchange of information on monetary and financial problems, thus facilitating the preparation of studies designed to assist members in developing policies which further the purposes of the Fund.

Section 6. Consultation between members regarding existing international agreements

Where under this Agreement a member is authorized in the special or temporary circumstances specified in the Agreement to maintain or establish restrictions on exchange transactions, and there are other engagements between members entered into prior to this Agreement which conflict with the application of such restrictions, the parties to such engagements shall consult with one another with a view to making such mutually acceptable adjustments as may be necessary. The provisions of this Article shall be without prejudice to the operation of Article VII, Section 5.

Section 7. Obligation to collaborate regarding policies on reserve assets

Each member undertakes to collaborate with the Fund and with other members in order to ensure that the policies of the member with respect to reserve assets shall be consistent with the objectives of promoting better international surveillance of international liquidity and making the special drawing right the principal reserve asset in the international monetary system.

Article XXVI - Withdrawal from Membership

Section 1. Right of members to withdraw

Any member may withdraw from the Fund at any time by transmitting a notice in writing to the Fund at its principal office. Withdrawal shall become effective on the date such notice is received.

Section 2. Compulsory withdrawal

(*a*) If a member fails to fulfill any of its obligations under this Agreement, the Fund may declare the member ineligible to use the general resources of the Fund. Nothing in this Section shall be deemed to limit the provisions of Article V, Section 5 or Article VI, Section 1.

(*b*) If, after the expiration of a reasonable period following a declaration of ineligibility under (*a*) above, the member persists in its failure to fulfill any of its obligations under this Agreement, the Fund may, by a seventy percent majority of the total voting power, suspend the voting rights of the member. During the period of the suspension, the provisions of Schedule L shall apply. The Fund may, by a seventy percent majority of the total voting power, terminate the suspension at any time.

(*c*) If, after the expiration of a reasonable period following a decision of suspension under (*b*) above, the member persists in its failure to fulfill any of its obligations under this Agreement, that member may be required to withdraw from membership in the Fund by a decision of the Board of Governors carried by a majority of the Governors having eighty-five percent of the total voting power.

(*d*) Regulations shall be adopted to ensure that before action is taken against any member under (*a*), (*b*), or (*c*) above, the member shall be informed in reasonable time of the complaint against it and given an adequate opportunity for stating its case, both orally and in writing.

Section 3. Settlement of accounts with members withdrawing

When a member withdraws from the Fund, normal operations and transactions of the Fund in its currency shall cease and settlement of all accounts between it and the Fund shall be made with reasonable dispatch by agreement between it and the Fund. If agreement is not reached promptly, the provisions of Schedule J shall apply to the settlement of accounts.

APPENDIX B
GENERAL TERMS OF IMF FINANCIAL ASSISTANCE

		Repurchase terms		
Facility or policy	**Charges**	**Obligation schedule (years)**	**Expectation [1] schedule (years)**	**Installments**
Stand-by arrangement	Basic rate [2] plus surcharge [3]	3¼–5	2¼–4	Quarterly
Extended fund facility	Basic rate [2] plus surcharge [3]	4½–10	4½–7	Semiannual
Compensatory financing facility	Basic rate [2]	3¼–5	2¼–4	Quarterly
Emergency assistance	Basic rate [2 4]	3¼–5	N/A	Quarterly
Supplemental reserve facility	Basic rate [2] plus surcharge [5]	2½–3	2–2½	Semiannual
Poverty reduction and growth facility; exogenous shocks facility	0.5 percent per annum	5½–10	N/A	Semiannual
Memorandum Items: [6]				
Service charge	50 basis points			
Commitment charge [7]	25 basis points on committed amounts of up to 100 percent of quota, 10 basis points thereafter			

[1] Disbursements made after November 28, 2000—with the exception of disbursements of Emergency Assistance and loans from the Poverty Reduction and Growth Facility—are expected to be repaid on the expectation schedule. A member not in a position to meet an expected payment can request the Executive Board to approve an extension to the obligations schedule.
[2] The basic rate of charge is linked directly to the SDR interest rate by a fixed margin that is set each financial year. The basic rate of charge therefore fluctuates with the market rate of the SDR, which is calculated on a weekly basis. The basic rate of charge is adjusted upward for burden sharing to compensate for the overdue charges of other members (see Box II.9 in Pamphlet 45).
[3] The surcharge on high levels of credit outstanding under Stand-by Arrangements (SBA) and the Extended Fund Facility (EFF) is 100 basis points for credit over 200 percent of quota, and 200 basis points for credit over 300 percent of quota. This surcharge is designed to discourage large use of IMF resources.
[4] For PRGF-eligible members, the rate of charge may be subsidized to 0.5 percent per annum, subject to the availability of subsidy resources.
[5] The surcharge on the Supplemental Reserve Facility (SRF) is 300-500 basis points, with the initial surcharge of 300 basis points rising by 50 basis points after one year and each subsequent six months. The surcharge increases over time in order to provide an incentive for repurchases ahead of the obligation schedule.
[6] These charges do not apply to the Poverty Reduction and Growth Facility and Exogenous Shocks Facility.
[7] Commitment charge does not apply to Compensatory Financing Facility and Emergency Assistance.
Source: International Monetary Fund.

Figure B-1. IMF Funding Facilities and Policies. International Monetary Fund.

APPENDIX C
TIMELINE OF SELECTED EVENTS

Table C-1 – Timeline of Selected Events 1998-2005

Date	Events
Aug-98	Russia declares a default.
10/5/1998	Carlos Menem addresses the IMF-World Bank Annual Meeting.
1/13/1999	Brazil devalues its currency.
10/24/1999	Fernando de la Rúa and the Alianza win the presidential election.
12/10/1999	De la Rúa takes office. Jose Luis Machinea takes over as Minister of the Economy.
3/10/2000	IMF approves Stand-By Arrangement with Argentina.
5/11/2000	Labor Reform bill is approved by the Lower House.
8/17/2000	An investigation is opened concerning bribery charges associated with passage of the labor reform bill.
Oct-00	Depositors withdraw $789 million from the banking system within the month.
10/6/2000	Vice President Carlos Álvarez resigns.
1/12/2001	IMF approves augmentation of Stand-By Arrangement and concludes program review.
3/2/2001	Minister Machinea resigns.
3/4/2001	Ricardo Lopez-Murphy becomes Minister of the Economy.
3/19/2001	Minister Lopez-Murphy resigns.
3/20/2001	Dominigo Cavallo becomes Minister of the Economy.
3/21/2001	Argentina's "blindaje" generate nearly $40 billion from international financial institutions and the private sector.
3/26-28/01	International rating agencies lower Argentina's long-term sovereign rating.
4/14/2001	Minister Cavallo announces a change in the convertibility law allowing an equally weighted basket of the dollar and the euro.
4/26/2001	Pedro Pou is replaced as Central Bank Governor.
5/21/2001	IMF completes second program review.
6/3/2001	Authorities announce completion of voluntary "mega swap".
7/11/2001	Minister Cavallo announces a zero-deficit plan to balance the budget.
7/30/2001	Zero-deficit plan becomes law.
9/7/2001	IMF approves $8 billion augmentation of Argentina's Stand-By Arrangement and completes third program review.
11/6/2001	Standard and Poor's lowers Argentina's long-term sovereign rating to SD (selective default).
11/28-30/01	Depositors withdraw $3.6 billion from Argentine banks in three day bank run.
12/1/2001	Authorities implement a partial freeze on bank withdrawals.
12/12/2001	A national strike is called in protest of Argentina's economic policies.

12/19/2001	Domingo Cavallo resigns.
12/20/2001	President de la Rúa resigns. Ramón Puerta becomes interim President.
12/23/2001	Adolfo Rodríguez Saá is elected President by the Legislative Assembly. He subsequently announces a partial default on external debt.
12/30/2001	Rodríguez Saá resigns. Eduardo Camaño becomes interim President.
1/1/2002	Eduardo Duhalde is elected President by the Legislative Assembly.
1/3/2002	President Duhalde announces the end of the convertibility regime.
1/6/2002	A dual exchange rate is announced (Arg$1.4 for foreign exchange transactions, and a market float for all other transactions).
1/16/2002	IMF announces a one year extension of Argentina's debt repayment.
2/3/2002	The exchange rate system is unified. Bank balance sheets are subjected to uneven pesification.
2/11/2002	The peso depreciates to Arg$1.8 in foreign exchange markets.
3/8/2002	Full pesification of Argentina's external debt is passed by law. The currency sinks below 3 pesos per dollar.
Dec-02	The IMF approves a transitional program for Argentina free from any net new financing.
5/23/2003	Néstor Kirchner becomes President of Argentina.
9/1/2003	Argentina negotiates a new Stand-By Arrangement with the IMF totaling $12 billion.
Sep-03	Argentina unveils a debt restructuring package at the annual meeting of the IMF and World Bank in Dubai. The settlement is widely rejected by creditors.
Jul-04	The IMF withholds a $700 million disbursement for failure to meet fiscal targets.
Aug-04	Argentina suspends its IMF arrangement.
Jan-05	Argentina unveils a second debt restructuring package for creditors. Despite the adverse terms, 76% of bondholders accept the settlement.
Nov-05	The Summit of the Americas is held in Mar del Plata, Argentina. President Kirchner's inaugural address criticizes the IMF for failure to prevent the country's economic crisis.
Dec-05	President Kirchner fires economic minister Roberto Lavagna. Argentina announces that it will pay off its $9.8 billion debt to the IMF in full more than three years ahead of schedule.

APPENDIX D
ARGENTINA'S LENDING ARRANGEMENTS WITH THE INTERNATIONAL MONETARY FUND

Facility	Date of arrangement	Date of expiration or cancellation	Amount agreed[1]	Amount drawn	Amount outstanding
Standby arrangement	Sep 20, 2003	Jan 05, 2006	8,981,000	4,171,000	0
Standby arrangement	Jan 24, 2003	Aug 31, 2003	2,174,500	2,174,500	0
Standby arrangement	Mar 10, 2000	Jan 23, 2003	16,936,800	9,756,310	0
(of which) supplemental reserve facility	Jan 12, 2001	Jan 11, 2002	6,086,660	5,874,950	0
Extended fund facility	Feb 04, 1998	Mar 10, 2000	2,080,000	0	0
Standby arrangement	Apr 12, 1996	Jan 11, 1998	720,000	613,000	0
Extended fund facility	Mar 31, 1992	Mar 30, 1996	4,020,250	4,020,250	0
Standby arrangement	Jul 29, 1991	Mar 30, 1992	780,000	438,750	0
Standby arrangement	Nov 10, 1989	Mar 31, 1991	736,000	506,000	0
Standby arrangement	Jul 23, 1987	Sep 30, 1988	947,500	616,500	0
Standby arrangement	Dec 28, 1984	Jun 30, 1986	1,182,500	1,182,500	0
		Total	38,558,550	23,478,810	0

[1] thousands of SDRs. Source: International Monetary Fund.

Figure D-1. History of Argentina's IMF Lending Arrangements 1984-2003.

LIST OF REFERENCES

ALLEN, M. (2003) “Some Lessons from the Argentine Crisis: A Fund Staff View.” The Crisis That Was Not Prevented: Lessons for Argentina, the IMF, and Globalization. Teunissen and Akkerman, eds. FONDAD (January): 120-150.

AMUZEGAR, J. (1986) “The IMF Under Fire.” Foreign Policy 64 (Autumn): 98-119.

BAMBACI, J., T. SARONT and M. TOMMASI (2002) “The Political Economy of Economic Reforms in Argentina.” Policy Reform 5.2 (January): 75-88.

BARAJAS, A., E. BASCO, V.H. JUAN-RAMÓN and C. QUARRACINO (2006) “Banks During the Argentine Crisis: Were They All Hurt Equally? Did They All Behave Equally?” Working Paper of the International Monetary Fund, Washington D.C.: International Monetary Fund.

BBC News Online (2005) “Argentina to Pay Off Debt Early” 16 December. Available from http://news.bbc.co.uk/1/hi/business/4533740.stm. Last accessed May 2007.

BECKERMAN, P. (1985) “Central-Bank ‘Distress’ and Hyperinflation in Argentina, 1989-90.” Journal of Latin American Studies 27.3 (October): 663-682.

BIRDSALL, N. (2002) “What Went Wrong in Argentina?” Remarks, Center for Strategic & International Studies Conference “Argentina: Weighing the Options.” Center for Global Development, 20 January.

--- (2003) “Why It Matters Who Runs the IMF and the World Bank.” Working Paper No. 22, Center for Global Development.

BLEANEY, M. (2004) “Argentina’s Currency Board Collapse: Weak Policy or Bad Luck?” The World Economy 27.5 (May): 699-714.

Bloomberg News (2007a) “Kirchner May Heed IMF’s ‘Pathetic’ Advice, Pay Debt.” 21 February. Available from http://www.bloomberg.com/apps/news?pid=20601013&sid=azhC3vZNuM.M&refer=emergingmarkets. Last accessed May 2007.

--- (2007b) “Chavez Exploits Oil to Lend in Latin America, Pushing IMF Aside.” 27 February. Available from http://www.bloomberg.com/apps/news?pid=newsarchive&sid=atN8OPWGA4nE. Last accessed November, 2007.

--- (2007c) “Argentina Won’t Pay Paris Club as Part of IMF Accord.” 1 March. Available from http://www.bloomberg.com/apps/news?pid=20601086&sid=ah9sJ37j9kVg&refer=news Last accessed June 2007.

--- (2007d) "Argentina to Sell First Fixed-Rate Debt Since Default." Accessed 6 June. Available from http://www.bloomberg.com/apps/news?pid=20601086&sid=atWfSsRIK5SE.

--- (2007e) "Argentina's Kirchner Expects Paris Club Debt Accord." Accessed 11 October. Available from http://www.bloomberg.com/apps/news?pid=20601086&refer=latin_america&sid=aoKW1F.EQfKc.

BLUSTEIN, P. (2005) And the Money Kept Rolling In (and Out). New York: PublicAffairs.

BOUGHTON, J.M. (2001) Silent Revolution: The International Monetary Fund 1979-1989. Washington D.C.: International Monetary Fund, 2001.

BRODER, P. (1995) La Convertibilidad en Crisis. Buenos Aires: Ediciones Macchi.

BUIRA, A. (2003) "An Analysis of IMF Conditionality." United Nations G-24 Discussion Paper Series No. 22. New York, August.

BULMER-THOMAS, V. (2003) The Economic History of Latin America Since Independence. 2nd ed. New York: Cambridge University Press.

CABALLERO, R.J. (2003) "The Future of the IMF." The American Economic Review 93.2 (May): 31-38.

CALVO, G.A. (1986) "Fractured Liberalism: Argentina under Martínez de Hoz." Economic Development and Cultural Change 34.3 (April): 511-533.

CAMPBELL, H. (2006) "Argentina's Néstor Kirchner: Peronism Without Tears." Council on Hemispheric Affairs. Available from http://www.coha.org/2006/01/27/argentinas-nestor-kirchner-peronism-without-the-tears/. Last accessed October 2007.

CAVALLO, D. and J.A. COTTANI (1997) "Argentina's Convertibility Plan and the IMF." The American Economic Review 87.2 (May): 17-22.

CAVALLO, D. (2001) Argentina Frente al Nuevo Milenio. Madrid: Casa de América.

--- (2004) "Argentina and the IMF During the Two Bush Administrations." International Finance 7.1 (March): 137-150

CIBLIS, A.B., M. WEISBROT and D. KAR (2002) "Argentina Since Default: The IMF and the Depression." Briefing Paper, Center for Economic and Policy Research Washington D.C.: 13 September.

CIBLIS, A. and R. LO VUOLO (2005) Nothing Certain but Debt and Taxes: Lessons From Argentina's Recent Debt Debacle. Buenos Aires: Centro Interdisciplinario Para el Estudio de Políticas Públicas.

CORRALES, J. (1998) "Coalitions and Corporate Choices in Argentina, 1976-1994: The Recent Private Sector Support of Privatization." Studies in Comparative International Development 32.4 (Winter): 24-51.

--- (2002) "The Politics of Argentina's Meltdown." World Policy Journal (Fall): 29-42.

DE BEAUFORT WIJNHOLDS, J.O. (2003) "The Argentine Drama: A View from the IMF Board." The Crisis That Was Not Prevented: Lessons for Argentina, the IMF and Globalization. Teunissen and Akkerman, eds. FONDAD (January): 101-119.

DE LA TORRE, A., E.L. YEYATI and S.L. SCHMUKLER (2002) "Argentina's Financial Crisis: Floating Money, Sinking Banking." Working Paper, Washington D.C.: The World Bank 3 June.

DELL, S. (1986) "The History of the IMF." World Development 14.9: 1203-1212.

DELLA PAOLERA, G., and A.M. TAYLOR, eds. (2003) A New Economic History of Argentina. Cambridge: Cambridge University Press.

DHILLON, A., J. GARCÍA-FRONTI, S. GHOSAL and M. MILLER (2006) "Debt Restructuring and Economic Recovery: Analyzing the Argentine Swap." The World Economy 29.4 (April): 377-398.

The Economist (2005) "Kirchner and Lula: Different Ways to Give the Fund the Kiss Off." 20 December. Available from http://www.economist.com/background/displaystory.cfm?story_id=5327790. Last accessed May 2007.

--- (2006a) "Not Even a Cat to Rescue." 20 April. Available from http://www.economist.com/finance/displaystory.cfm?story_id=6834167. Last accessed May 2007.

--- (2006b) "Reality Check at the IMF." 20 April. Available from http://www.economist.com/opinion/displaystory.cfm?story_id=E1_GRNGTSG. Last accessed May 2007.

The Economist Intelligence Unit (2007a) "Corruption in Argentina." EIU Briefing. 11 July. Available from http://www.economist.com/agenda/displaystory.cfm?story_id=9466393. Last accessed September 2007.

--- (2007b) "The Inflation Data Debacle Has Taken a New Turn." Accessed 8 August. Available from http://www.eiu.com/index.asp?layout=VWArticleVW3&article_id=1782443363&country_id=1470000147&channel_id=190004019&category_id=500004050&refm=vwCat&page_title=Article.

--- (2007c) "Argentina: Country Risk Summary." Accessed 26 September. Available from <http://www.eiu.com>.

FANELLI, J.M. (2003) "Growth, Instability and the Crisis of Convertibility in Argentina." The Crisis That Was Not Prevented: Lessons for Argentina, the IMF, and Globalization. Teunissen and Akkerman, eds. FONDAD (January): 32-67.

FELDSTEIN, M. (1998) "Refocusing the IMF." Foreign Affairs 77.2 (March/April): 20-33.

--- (2002) "Argentina's Fall." Foreign Affairs 81.2 (March/April): 8-14.

FERRER, A. (1967) The Argentine Economy. Berkeley and Los Angeles: University of California Press.

Financial Times (2005) "Creditors Cry Foul Over Debt as Argentina Changes Rules." 12 January. Available from http://us.ft.com/ftgateway/superpage.ft?news_id=fto011120050075006712. Last accessed July 2007.

--- (2007) "Argentina's Bonanza Raises Economic Concerns." Accessed 5 September. Available from http://us.ft.com/ftgateway/superpage.ft?news_id=fto090520071841281887.

FISCHER, S. (1999) "On the Need for an International Lender of Last Resort." Journal of Economic Perspectives 13.4 (Fall): 85-104.

FORD, A.G. (1962) The Gold Standard, 1880-1914: Britain and Argentina. Oxford: Clarendon Press.

GALIANI, S., D. HEYMANN and M. TOMMASI (2003) "Expectativas Frustradas: el Ciclo de la Convertibilidad." Desarrollo Económico 43.169 (April-June): 3-44.

GERVASONI, C. (2003) "Debilidad Política y Crisis Financieras: Una Explicación del Fracaso de De la Rúa en Argentina."

Global Committee of Argentina Bondholders (2005) "International Center for the Settlement of Investment Disputes Arbitration Summary Memorandum." 15 February <http://www.gcab.org>.

GOLDSTEIN, M. (2003) "Debt Sustainability, Brazil and the IMF." Institute for International Economics Working Paper 03-1. February, 2003.

HALE, D.D. (1998) "The IMF, Now More Than Ever: The Case for Financial Peacekeeping." Foreign Affairs 77.6 (1998): 7-13.

HAYAMI, Y. (2003) "From the Washington Consensus to the Post-Washington Consensus: Retrospect and Prospect." Asian Development Review 20.2: 40-65.

HEYMANN, D. (1987) "The Austral Plan." The American Economic Review 77.2 (May): 284-287.

Independent Evaluation Office of the International Monetary Fund (2004) The IMF and Argentina 1991-2001. Washington D.C: International Monetary Fund.

International Monetary Fund (1995) "IMF Approves Extension, for Fourth Year, of EFF Credit to Argentina." Press Release No. 95/18. 6 April. Available from http://www.imf.org/external/np/sec/pr/1995/pr9518.htm. Last accessed May 2007.

--- (1998a) "IMF Approves Three-Year Extended Fund Facility for Argentina." Press Release No. 98/1. 4 February. Available from http://www.imf.org/external/np/sec/pr/1998/pr9801.htm. Last accessed May 2007.

--- (1998b) "Statement by the Hon. Carlos Saul Menem, President of the Republic of Argentina." Annual Meetings of the Board of Governors of the International Monetary Fund and the World Bank Group. 6-8 October. Available from http://www.imf.org/external/am/1998/speeches/pr05e.pdf. Last accessed April 2007.

--- (1999a) "Argentina Policy Memorandum." 11 January. Available from http://www.imf.org/external/np/loi/1999/011199.htm. Last accessed May 2007.

--- (1999b) "IMF Concludes Article IV Consultation with Argentina." Public Information Notice No. 99/21. 11 March. Available from http://imf.org/external/np/sec/pn/1999/pn9921.htm. Last accessed August 2007.

--- (1999c) "Argentina – Letter of Intent." 10 May. Available from http://www.imf.org/external/np/loi/1999/051099.htm. Last accessed August 2007

--- (2000a) "Argentina – Memorandum of Economic Policies." 14 February. Available from http://www.imf.org/external/NP/LOI/2000/arg/01/INDEX.HTM. Last accessed September 2007.

--- (2000b) "IMF Approves US$7.2 Billion Three-Year Stand-By Credit for Argentina." Press Release No. 00/17. 10 March. Available from http://www.imf.org/external/np/sec/pr/2000/pr0017.htm. Last accessed September 2007.

--- (2000c) "Argentina – Letter of Intent and Memorandum of Economic Policies." 5 September. Available from http://www.imf.org/external/NP/LOI/2000/arg/02/INDEX.HTM. Last accessed September 2007

--- (2000d) "IMF Concludes Article IV Consultation with Argentina." Public Information Notice No. 00/84. 3 October. Available from http://www.imf.org/external/np/sec/pn/2000/pn0084.htm. Last accessed September 2007.

--- (2000e) "IMF's Köhler Supports Strengthening of Argentina's Program." News Brief No. 00/101. 10 November. Available from http://www.imf.org/external/np/sec/nb/2000/nb00101.htm. Last accessed September 2007.

--- (2001a) "IMF Management Welcomes Argentine Fiscal Measures." News Brief No. 01/41. 28 April. Available from http://www.imf.org/external/np/sec/nb/2001/nb0141.htm. Last accessed August 2007.

--- (2001b) "Argentina – Letter of Intent and Memorandum of Economic Policies." 3 May. Available from http://www.imf.org/external/NP/LOI/2001/arg/01/INDEX.HTM. Last accessed September 2007.

--- (2001c) "Third Review Under the Stand-By Arrangement, Request for Waivers and Modification of the Program." Country Report No. 01/90. 14 May. Available from http://www.imf.org/external/pubs/ft/scr/2001/cr0190.pdf. Last accessed June 2007.

--- (2001d) "IMF Completes Third Argentina Review." News Brief No. 01/44. 21 May. Available from http://www.imf.org/external/np/sec/nb/2001/nb0144.htm. Last accessed June 2007.

--- (2001e) "IMF Welcomes Argentine Announcement." News Brief No. 01/48. 3 June. Available from http://www.imf.org/external/np/sec/nb/2001/nb0148.htm. Last accessed October 2007.

--- (2001f) "IMF Augments Argentina Stand-By Credit to $21.57 Billion and Completes Fourth Review." Press Release No. 01/37. 7 September. Available from http://www.imf.org/external/np/sec/pr/2001/pr0137.htm. Last accessed June 2007.

--- (2001g) "Transcript of a Press Briefing by Thomas Dawson." 6 December. Available from http://www.imf.org/external/np/tr/2001/tr011206.htm. Last accessed October 2007.

--- (2002a) "IMF Extends Argentina's SRF Repayment by One Year." Press Release No. 02/2. 16 January. Available from http://www.imf.org/external/np/sec/pr/2002/pr0202.htm. Last accessed September 2007.

--- (2002b) "Press Statement by the IMF Mission to Argentina." News Brief No. 02/20. 15 March. Available from http://www.imf.org/external/np/sec/nb/2002/nb0220.htm. Last accessed September 2007.

--- (2002c) "Statement by the IMF Mission to Argentina." 17 April. Available from http://www.imf.org/external/np/ms/2002/041702.htm. Last accessed September 2007.

--- (2002d) “IMF Issues Press Statement on Argentina.” News Brief No. 02/114. 14 November Available from http://www.imf.org/external/np/sec/nb/2002/nb02114.htm. Last accessed October 2007.

--- (2002e) “IMF Statement on Argentina.” News Brief No. 02/130. 20 December. Available from http://www.imf.org/external/np/sec/nb/2002/nb02130.htm. Last accessed September 2007.

--- (2003a) “Argentina: Press Statement Following Article IV Consultation.” Press Release No. 03/01. 8 January. Available from http://www.imf.org/external/np/sec/pr/2003/pr0301.htm. Last accessed October 2007.

--- (2003b) “IMF Concludes 2002 Article IV Consultation with Argentina.” Public Information Notice No. 03/88. 25 July. Available from http://www.imf.org/external/np/sec/pn/2003/pn0388.htm. Last accessed July 2007.

--- (2003c) “Memorandum of Economic and Financial Policies of the Government of Argentina for 2003-2006.” 10 September. Available from http://www.imf.org/External/NP/LOI/2003/arg/03/index.htm. Last accessed August 2007.

--- (2004a) “Argentina – Letter of Intent.” 9 January. Available from http://www.imf.org/External/NP/LOI/2004/arg/01/index.htm. Last accessed August 2007.

--- (2004b) “First Review Under the Stand-By Arrangement and Request for Waiver of Nonobservance and Applicability of Performance Criteria.” Country Report No. 04/194. 21 January. Available from http://www.imf.org/external/pubs/ft/scr/2004/cr04194.pdf. Last accessed July 2007.

--- (2004c) “IMF Completes First Review of Argentina’s Stand-By and Grants Waivers.” Press Release No. 04/16. 28 January. Available from http://www.imf.org/external/np/sec/pr/2004/pr0416.htm. Last accessed September 2007.

--- (2005) “IMF Executive Board Concludes 2005 Article IV Consultation with Argentina.” Public Information Notice No. 05/83. 30 June. Available from http://www.imf.org/external/np/sec/pn/2005/pn0583.htm. Last accessed October 2007.

--- (2006) “IMF Executive Board Concludes 2006 Article IV Consultation with Argentina.” Public Information Notice 06/93. 9 August. Available from http://www.imf.org/external/np/sec/pn/2006/pn0693.htm. Last accessed October 2007.

KIGUEL, M.A. (1989) “Inflation in Argentina: Stop and Go Since the Austral Plan.” Working Paper of the Macroeconomic Adjustment and Growth Division of the World Bank, Washington D.C.: The World Bank.

--- (2002) “Structural Reforms in Argentina: Success or Failure?” Comparative Economic Studies 44.2 (Summer): 83-102.

KIGUEL, M.A. and N. LIVIATAN (1989) “The Inflation Stabilization Cycles in Argentina and Brazil.” Working Paper of the Macroeconomic Adjustment and Growth Division of the World Bank, Washington D.C.: The World Bank.

KIRCHNER, N. (2005) Speech by the President of Argentina, IV Summit of the Americas. Mar del Plata, Argentina, 4 November. Available from http://www.summit-americas.org/Documents%20for%20Argentina%20Summit%202005/IV%20Summit/Discursos/Discurso%20del%20presidente%20de%20la%20República%20Argentina.pdf.

KRUEGER, A.O. (2002) “Crisis Prevention and Resolution: Lessons from Argentina.” Speech Given at “The Argentina Crisis” Conference. National Bureau of Economic Research. Cambridge, Massachusetts 17 July.

--- (2004) “Argentina: Remaining Economic Challenges.” Speech Given at the American Enterprise Institute. Washington D.C., 31 March.

LEVITSKY, S. and M.V. MURILLO (2003) “Argentina Weathers the Storm.” Journal of Democracy 14.4 (October): 152-166.

LISCHINSKY, B. (2003) “The Puzzle of Argentina’s Debt Problem: Virtual Dollar Creation?” The Crisis That Was Not Prevented: Lessons for Argentina, the IMF, and Globalization. Teunissen and Akkerman, eds. FONDAD (January): 81-100.

MACEWAN, A. (2002) “Economic Debacle in Argentina: the IMF Strikes Again.” Foreign Policy in Focus 2 January.

Ministerio de Economía y Producción de la República Argentina (2004) Análisis No. II -- Argentina, el FMI y la Crisis de la Deuda. Buenos Aires: July.

MUNCK, R. (2001) “Argentina, or the Political Economy of Collapse.” International Journal of Political Economy 31.3 (Fall): 67-88.

MUSSA, M. (2002) Argentina and the Fund: From Triumph to Tragedy. Washington DC: Institute for International Economics.

The New York Times (2001) “The World: First Things Last; Argentina and the Aid Next-Door.” 12 August. Available from http://query.nytimes.com/gst/fullpage.html?res=9903E4DC133FF931A2575BC0A9679C8B63&n=Top/Reference/Times%20Topics/People/O/O'Neill,%20Paul%20H. Last accessed September 2007.

--- (2004) “IMF Accepts Standstill to Let Argentina Work on Debt.” 1 September. Available from http://www.nytimes.com/2004/09/01/business/worldbusiness/01argentina.html?_r=1&n=Top/Reference/Times%20Topics/Organizations/I/International%20Monetary%20Fund&oref=slogin. Last accessed August 2007.

NORDEN, D.L. and R. RUSSELL (2002) The United States and Argentina: Changing Relations in a Changing World. New York: Routledge.

OCAMPO, J.A. (2003) “The Mistaken Assumptions of the IMF.” The Crisis That Was Not Prevented: Lessons for Argentina, the IMF, and Globalization. Teunissen and Akkerman, eds. FONDAD (January): 22-31.

PASTOR, M. and C. WISE (2001) “From Poster Chile to Basket Case.” Foreign Affairs 80.6 (November/December): 60-72.

PORZECANSKI, A.C. (2005) “From Rogue Creditors to Rogue Debtors: Implications of Argentina’s Default.” Chicago Journal of International Law 6.1 (Summer): 311-332.

POWELL, A. (2002) Argentina’s Avoidable Crisis: Bad Luck. Bad Economics, Bad Politics, Bad Advice. Brookings Trade Forum: 1-58.

RILEY, M.B. (2004) “Argentina’s President Kirchner Continues His Daring Departure from Past Practices.” Council on Hemispheric Affairs. Available at http://www.coha.org/2004/10/20/argentina%E2%80%99s-president-kirchner-continues-his-daring-departure-from-past-practices/. Last accessed October 2007.

RODRIK, D. (2003) “Argentina: A Case of Globalization Gone Too Far or Not Far Enough?” The Crisis That Was Not Prevented: Lessons for Argentina, the IMF, and Globalization. Teunissen and Akkerman, eds. FONDAD (January): 15-21.

SACHS, J. and F. LARRAIN (1999) “Why Dollarization is More Straitjacket Than Salvation.” Foreign Policy 116 (Autumn): 80-92.

SEVARES, J. (2002) “¿Por Qué Cayó la Argentina?” Realidad Económica 188 (May/June): 6-10.

SMITH, W.C. (1989) Authoritarianism and the Crisis of the Argentine Political Economy. Stanford, California: Stanford University Press.

STIGLITZ, J. (2000) “The Insider – What I Learned at the World Economic Crisis.” The New Republic. 17 April.

--- (2002) “Argentina, Shortchanged.” The Washington Post 12 May, final ed.: B1.

--- (2003) “Dealing with Debt: How to Reform the Global Financial System.” Harvard International Review (Spring): 54-59.

--- (2004) "The Post Washington Consensus Consensus." Initiative for Policy Dialogue, September.

STILES, K.W. (1987) "Argentina's Bargaining with the IMF." Journal of Interamerican Studies and World Affairs 29.3 (Autumn): 55-85.

STURZENEGGER, F. and J. ZETTELMEYER (2005) "Haircuts: Estimating Investor Losses in Sovereign Debt Restructurings, 1998-2005." IMF Working Paper No. 05/137. Washington, D.C., July.

TEIJEIRO, M. (2001) "Una Vez Mas, La Política Fiscal." Centro de Estudios Públicos. 15 June. Available from http://www.cep.org.ar/articulo.php?ids=156. Last accessed July 2007.

--- (2002) "La Culpa del FMI." Centro de Estudios Públicos. 16 August. Available from http://www.cep.org.ar/documentos/la_culpa_del_fmi.pdf. Last accessed July 2007.

--- (2003) "Atrapados entre Kirchner y el Fondo." Centro de Estudios Públicos. 30 December. Available from http://www.cep.org.ar/articulo.php?ids=163. Last accessed August 2007.

--- (2005a) "El Fracaso del FMI." Centro de Estudios Públicos. 20 March. Available from http://www.cep.org.ar/articulo.php?ids=190. Last accessed May 2007.

--- (2005b) "El Futuro del FMI." Centro de Estudios Públicos. 28 March. Available from http://www.cep.org.ar/articulo.php?ids=191. Last accessed May 2007.

TORRES, A. (2006) "Soltando las Amarras – Algunas Consideraciones Sobre la Cancelación de la Deuda con el FMI." Centro Argentino de Estudios Internacionales, 14 May. Available from http://www.caei.com.ar/es/programas/pea/04.pdf. Last accessed July 2007.

United Nations Economic Commission for Latin America and the Caribbean (2006) Statistical Yearbook for Latin America and the Caribbean, 2006. Santiago, Chile: United Nations.

WILLIAMS, J.H. (1920) Argentine International Trade Under Inconvertible Paper Currency, 1880-1900. Cambridge, MA: Harvard University Press.

WILLIAMSON, J. (2002) "What Washington Means by Policy Reform." Peterson Institute for International Economics, November.

--- (2004) "A Short History of the Washington Consensus." Paper commissioned by Fundación CIDOB for the conference "From the Washington Consensus towards a new Global Governance." 24-25 September.

BIOGRAPHICAL SKETCH

Mary Waters was born and raised in Beaverton, Oregon. She graduated Phi Beta Kappa with honors from Willamette University in 2001 with a Bachelor of Arts in Spanish and international studies. She has traveled extensively throughout Latin America and has studied abroad in Chile, Ecuador, Argentina and Brazil. As an undergraduate, Mary took an internship with the U.S. Foreign Commercial Service in Buenos Aires, Argentina, which intensified her interest in Latin American business.

After graduation, Mary worked as a federal contractor on water rights litigation in Boise, Idaho before returning to graduate school. In 2005, she entered the University of Florida to pursue a Master of Arts in Latin American studies. Mary's graduate coursework has enriched her knowledge of Latin American business practices. She graduated in the fall of 2007 with a Master of Arts in Latin American studies with concentration in the Latin American business environment.