

The Argentine Monetary Crisis



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Outline

- Financial History and why the crisis happened.
- What happened during the crisis and what was done?
- What is going on today? The Remedy?
- Future outlook and the lessons we learned.



Financial History and why the crisis happened.



1930 1940 1950 1960 1970 1980 1990 2000

- 1930's
Argentina's Economic Boom
- 1940's
Start of Military Rule
- 1972-1974
Government Returned to Civilian Rule
Life of Juan and Isabel Peron



1930 1940 1950 1960 1970 1980 1990 2000

- 1975-1983
 - Dirty War
 - Inflation to Impeachment
 - Military back to Power (stabilization)
 - Currency Depreciation
 - Generals Videla, Viola, Galtieri
 - Hyperinflation
 - Falkland Islands disaster, a resignation
 - Victory for the Radical Party (Alfonsín)



1930 1940 1950 1960 1970 1980 1990 2000

- 1985-1988
 - IMF intervention and demands
 - Introduction of Austral
 - Some inflation
 - Return of hyperinflation
 - Menem wins presidency



1930 1940 1950 1960 1970 1980 1990 2000

- 1991-1993
 - New Argentine peso
 - April: Peg to \$US
 - Formation of Mercosur
 - Soaring Unemployment



1930 1940 1950 1960 1970 1980 1990 2000

- 1994-1996
 - Interest rate hike in US
 - The Tequila Crisis
 - Heightening interest burden
 - Some market recovery



1930 1940 1950 1960 1970 1980 1990 2000

- 1997

- East Asian Financial Crisis
- Slide of Thai Baht
- Worried investors
- \$US overvaluation
- Interest payments now in CA



1930 1940 1950 1960 1970 1980 1990 2000

- 1998
 - Financial crisis in Russia
- 1999
 - Financial crisis in Brazil (real collapses)
 - de la Rúa becomes President
 - aid sought from IMF



1930 1940 1950 1960 1970 1980 1990 2000

- 2000
 - Tax increases
 - IMF agreement
 - Government budget cuts
 - Multilateral assistance package by IMF



1930 1940 1950 1960 1970 1980 1990 2000

- 2001

- IMF augmentation
- Minister of Economy resignation
- Voluntary debt restructuring
- Exchange rate price change
- Cavallo's plan
- Unions strike
- “Zero-deficit” law announced



1930 1940 1950 1960 1970 1980 1990 2000

- 2001 (continued)
 - IMF reaction to “zero-deficit” law
 - Provincial bonds as scrip to pay salaries
 - Debt swap
 - Run on banks
 - Protests begin
 - IMF withholds payment
 - Announcement on foreign debt repayment



1930 1940 1950 1960 1970 1980 1990 2000

- 2001 (continued)
 - Unemployment at 18%
 - Supermarket looting
 - Rioting from protests, leaving several dead
 - Cavallo resignation
 - de la Rúa resignation



What happened during the crisis and what was done?



3 Main Periods

- November 2001-December 2001
- January 2002
- February 2002-November 2002



November 2001-December 2001

- Presidents Meet
- Declining Reserves
- Bank Restrictions
- Strikes and Looting
- Mass Resignations & Market Closures
- New Economic Plan
- Resignation



January 2002

- New Government
- Bank Policies
- IMF Extension
- Meeting With US and IMF



February 2002-November 2002

- Supreme Court Ruling
- Export Tax and Other Policies
- Suspension of Activity
- Protests
- Early Elections
- Default



What is going on today? The Remedy?



Argentina's Re-emergence into Financial Markets

- January 2003
 - IMF approves new \$6.6bn loan program
- April 2003
 - Nestor Kirchner wins Presidential Elections with 22% of vote
 - Pledges to take a tougher stance with creditors and IMF



- June 2003
 - IMF begins negotiations for new 3-year deal
- September 9
 - Argentina misses \$2.9bn payment to the IMF
- September 10
 - IMF agrees to roll-over \$12.3bn in debt payments and Argentina makes payment
- September 22
 - At the annual Dubai conference Argentina asks its private creditors to write-off 75% of the money they are owed



Argentina Today

- January 2004
 - IMF disbursed \$330m to Argentina
 - IMF gave positive review of year's progress
- March 2004
 - Argentina made a \$3.1bn payment to IMF on-time, after threatening to delay again
 - IMF agrees to released \$3.1bn loan to Argentina without delays similar to December



- In the fourth quarter of 2003 Argentina's GDP grew 11.3%
- Overall, GDP grew 8.7% in 2003
- The unemployment rate is down to 15.6%
- The inflation rate has fallen to 15.7% from 41% at end of 2002

Bouncing back

Argentina's economy

% change on previous year in real terms



Sources: Dirección Nacional de Investigaciones y Análisis Fiscal; Thomson Datastream



What Next?

- Restructuring debt
- Argentina owes almost \$100bn in private debt
- Needs to negotiate in “good faith”
- Kirchner wants creditors to write-off 75% of debt

Haircut, sir?

Argentina's public debt stock
end 2003, \$bn, estimate

Debt to be restructured	Principal value	Interest in arrears	Total
Bonds	81.2	18.2	99.4
Other	6.8	0.5	7.4
Debt excluded from restructuring			
Guaranteed loans and bonds	24.6	-	24.6
Bodens*	20.6	-	20.6
Multilaterals	30.8	-	30.8
Others	2.5	-	2.5
Total	166.5	18.7	185.2

* A government bond issued to Argentine banks after the default

Source: Ministry of Economy

Néstor Kirchner



3-Year Economic Program

- Goal: establish sustained growth, reduce widespread poverty, reduce debt, maintain low inflation, and strengthen the banking system and investment environment through:
 - Utility Company Reform
 - Fiscal Policy
 - Structural Fiscal Reform
 - Monetary Policy
 - Banking Reform
 - Legal Framework



Future outlook and the lessons we learned.



Economic Data (1)

	1999	2000	2001	2002	2003
GDP Growth	-3.39	-0.79	-4.41	-11.3	8.7
Inflation (%)	-1.17	-0.94	-1.07	25.87	15.7
Unemployment (%)	13.03	14.55	16.4	18.8	15.6



Economic Data (2)

	1999	2000	2001	2002	2003
Public Debt / GDP (%)	42.99	45.04	53.76	111.5	132.9
CA Balance / GDP	-4.2	-3.12	-1.69	8.6	5.7

-- From the Economist Intelligence Unit and United Nations



Future Outlook

- GDP Growth:
 - 2004: 4.9%
 - 2005: 3.5%
- Inflation:
 - 2004: 6.3%
 - 2005: 6.2%

-- From the Economist Intelligence Unit



Economic situation

- GDP will not return to 1998 level until 2005.
- Inflation continue rising.
 - CA surplus may be erased by inflation
- Fiscal policies remains weak.



Policy-making

- Short term:
 - Monetary policy
 - Tax rates
 - Banking system
 - Foreign debt



Policy-making (continued)

- Long term:
 - Rule of Law
 - Tax strategy
 - Government spending
 - Labor
 - Health care

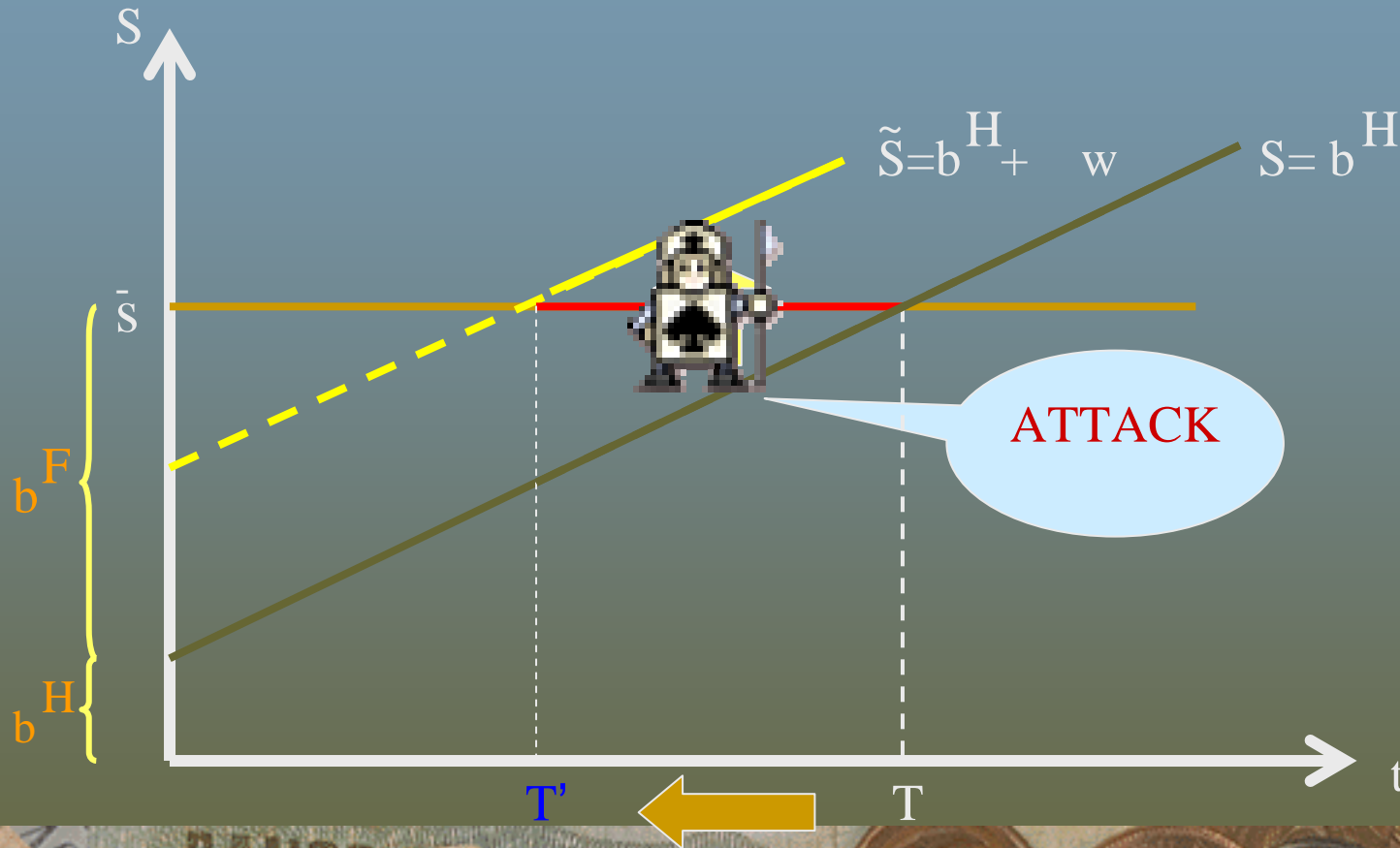


What might go wrong?

- With hindsight:
 1. Weak fiscal policy
 2. Unfavorable external environment and shocks.
 3. Unsustainable debt dynamics.



Exchange Rate and Shadow Exchange Rate



What we have learned?

1. Focus more closely on debt dynamics.
2. Currency board are not necessarily as durable.
3. Emerging market countries may need to be more conservative.
4. Making it easier for countries to exit from unsustainable debt dynamics. (A sovereign debt reconstructing mechanism?)



Other Issues

- Would a different exchange rate policy help to avoid the crisis?
 - A floating exchange might help avoid the crisis, but
 - Floating exchange rate is associated with high inflation, extreme depreciation, and economic stability in history.



Thank you!

