Argentina Plans to Use Reserves To Defend Peso's Value vs. Dollar

BUENOS AIRES -- President Eduardo Duhalde said Saturday the Argentine government will sell portions of its international reserves to defend the value of the currency against the U.S. dollar. Speaking on his "Talking With the President" nationwide radio program, Mr. Duhalde promised the dollar won't "skyrocket [against the peso] because the government has all the resources" necessary to maintain the currency's value.

He said "antipatriotic ... speculation" was behind the peso's month-long slide to about 48 cents, less than half its value during the last 11 years. On Monday, Argentina floated the currency for the first time since early 1991. Mr. Duhalde devalued the peso to about 71 cents on Jan. 6 after discovering that the central bank didn't have enough dollars to continue Argentina's one-to-one currency peg with the dollar.

Wall Street currency analysts and economists said Friday that they expect the peso could fall to as low as 28 cents in the next several days as Argentine individuals and companies accelerate their efforts to dump the devalued and weakening currency. Economist Eduardo Curia told Radio Mitre Saturday that the government will have to "clench its teeth" and spend whatever dollars necessary to strengthen the peso "especially in the first few days" of next week.

"The situation is complicated, expectations are not the best and there's not a large supply" of dollars available to the central bank to fully meet Argentines' pent up demand for the currency, Mr. Curia said.

Palace Protest

On Friday, Thousands of demonstrators marched on the presidential palace hours after Mr. Duhalde unveiled a sweeping plan to scale back political spending, including cutting government jobs and making deep spending cuts. Some 3,000 people gathered outside the Casa Rosada, clanging pots and pans and shouting insults at the beleaguered president, the Supreme Court, and Argentine politicians -- whom most Argentines blame for the country's deep economic crisis.
More than a decade after Latin America's embrace of democracy and free markets attracted a flood of investment from multinational companies, much of the region is on the rocks again. But unlike the region's last big wave of problems in the 1980s, no one seems to know what to do. Back then, the U.S. led an international consensus that preached the need to overhaul authoritarian political systems and state-dominated economies. With the war on terrorism and the agony on Wall Street dominating the Bush administration's agenda, the U.S. has been largely disengaged from Latin America.

Yet the return of economic or political instability in the region threatens crucial oil imports from Venezuela and huge investments by U.S. companies in Brazil and elsewhere. It sparks doubts of a new surge in the drug trade or social unrest, and with them the question of whether the U.S. must again commit resources to aid its neighbors and protect its own interests. President Bush himself warned during his election campaign that "those who ignore Latin America, do not fully understand America itself."

The global market upheaval portends even more trouble for Latin America, as investors grow wary about putting their money in unstable countries. Foreign investment to Brazil slowed abruptly this month compared with its pace in the first half of the year. The Brazilian real hit an all-time low Wednesday.

This year has brought one debacle after another: an economic collapse in Argentina, a failed coup in Venezuela, street protests in Peru and Paraguay, and a financial shock in Brazil. A four-decade conflict between Colombia's government and Marxist guerrillas is growing hotter. Even the bright spots are hardly glittering. Mexico's future looks secure under the umbrella of the North American Free Trade Agreement, though its economy is vulnerable to ups and downs in the U.S. business cycle. Chile remains a small island of prosperity, but its economy has been slowed by the chaos elsewhere in South America.

The effects on this sprawling region can be measured in millions of individual stories. With Argentina suffering a 15% economic contraction, the health minister of the southern province of Chubut authorized hospitals to reuse pacemakers taken from corpses. "People donate organs, so why not pacemakers?" asks Eloy Garcia, the health minister who has recovered four pacemakers and is also looking to reuse bone screws.
For U.S. companies that flocked to Latin America during the past decade, from heavy-
machinery makers to movie-theater operators, uncertainty and instability threaten investments
and the potentially huge consumer market they were counting on. By 1999, Latin America had
surpassed Asia as a destination for investment in plants and equipment, taking in more than
$100 billion for that year. Brazil averaged direct foreign investment of about $30 billion

This year, as big expectations bump headlong into tough realities, Brazil may not reach $20
billion. The Brazilian auto industry, dominated by names such as General Motors Corp., Ford
Motor Co. and Fiat SpA, saw an 18% decline in sales during the first half of 2002 compared
with the year-earlier period.

Latin America's woes also have nicked the second-quarter results of several U.S. companies,
including agricultural-products maker Monsanto Co., food-and-beverage giant PepsiCo Inc.
and banking company FleetBoston Financial Corp. For Citigroup, whose Latin American
operations lost money in the first quarter due to Argentina's collapse, the continuing malaise
there and Brazil's slowdown sliced income from the region by 16% in the second quarter
compared with the year-earlier period.

Latin America hasn't developed sufficient export earnings or internal savings to break its
dependence on foreign capital, including volatile portfolio investments from Wall Street. Brazil
has pumped up exports, but they still represent only 10% of gross domestic product, a small
share by global standards. Brazilian business executives say protectionism by the U.S. and
Europe has bottled up exports of products like orange juice, steel and textiles.

"There are all of these barriers against developing countries," says Lawrence Pih, president of
Moinho Pacifico Ltd., a Sao Paulo flour miller. "And even in an ideal environment, it takes a
long time to develop value-added products in what had been very, very closed economies."

Painful Process

Beginning in the 1980s, many Latin American countries began a complex and painful process of
breaking with state-dominated economic models and authoritarian political traditions. By the
1990s, economies steeped in poverty, mismanagement and corruption had begun to see a surge
in investment and some growth. Elections brought in reformers, who were increasingly in sync
with Washington -- a notable change in a region with a history of conflict with the U.S. But
after a few years of optimism, Latin America finds itself troubled by old ghosts and demons: a
dangerous dependence on foreign capital, bloated centralist governments and an ineffectual
political class.

Brazil -- Latin America's most populous country and the one where foreign investors have made
their biggest bets -- is a leading indicator of whether the region's problems will turn into a full-
blown crisis. Concerns surrounding the presidential election set for October have been pushing
down the Brazilian currency. Markets fear the next president could spend too freely and steer
the economy away from President Fernando Henrique Cardoso's free-market policies, putting
Brazil at risk of default on its massive debt. U.S. Treasury Secretary Paul O'Neill's visit to Latin
America, scheduled for next week but then postponed, initially cheered investors, who yearn for
a more active U.S. role.

Mr. O'Neill had hoped to demonstrate U.S. commitment to the region, but having been
criticized for overseas travel during recent financial turmoil at home, Mr. O'Neill pushed the
visit back Wednesday.

The U.S. for the most part has adopted a hands-off approach as Argentina tumbles into an abyss
and its neighbors endure a slow spillover. Since December, Argentina has defaulted on much of
its $141 billion of public-sector debt and devalued the peso, which had been pegged 1-to-1 to
the dollar for the prior decade. Argentina also has had five presidents since December. But even among critics of the Bush administration, there's debate about how much more to do for an Argentine ruling elite that has squandered previous aid packages.

U.S. policy makers also have come under fire for compromising democratic principles by appearing to wink at a coup attempt against Venezuelan strongman Hugo Chavez, a longtime antagonist of Washington. And by slapping tariffs on foreign steel and granting big subsidies to U.S. farmers, the Bush administration's actions have run against its rhetoric about uniting the hemisphere in a single trade bloc. The protectionist measures threaten a range of Latin Americans, from steelworkers in Brazil's heartland to soybean growers on the pampa. Latin Americans complain that U.S. leaders have been less than diplomatic in their comments about the region. Secretary of State Colin Powell has spoken out about the problems of corruption and a politicized judiciary in Argentina. Treasury Secretary O'Neill has rattled markets in Argentina and Brazil with off-the-cuff remarks expressing skepticism about bailouts and countries who seek them.

Argentine President Eduardo Duhalde, in a recent interview with a Buenos Aires newspaper, complained about "the ignorance and lack of concern toward our region by the U.S. government." And Latin Americans have reacted with undisguised amusement at the raft of U.S. financial scandals and market woes. The Brazilian magazine IstoE last week derided the U.S. as a "banana republic."

What makes the current bout of economic and social problems particularly troubling is the shortage of fresh solutions. "In the 1970s, the easy answer was to democratize," says Riordan Roett, a Latin America scholar at Johns Hopkins University. "In the 1980s, the easy answer was market reforms. Now we're out of easy answers."

Washington Consensus

Few analysts anticipate a complete reversal of the market-oriented policies, such as privatization and fiscal restraint, that policy makers and academics labeled the "Washington Consensus." Peter Hakim, president of Inter-American Dialogue, a Washington-based think tank, notes that the conservative candidate has won the most votes in each of Latin America's five most recent presidential elections. Even Luiz Inacio Lula da Silva, the former metalworker who leads the presidential polls in Brazil, has moved to the center, at least rhetorically. But while leaders, old and new, voice their support for free-market policies, they increasingly seem to lack the ideological conviction and public backing to see the changes through. The result: a dangerous policy drift in some countries.

One particularly worrying case is Peru. Alejandro Toledo, a former shoeshine boy who went on to Stanford University, led street demonstrations that helped oust Alberto Fujimori, the authoritarian leader who had ruled Peru for a decade through late 2000. In a country with a vast economic gulf between whites and people of Indian heritage, Mr. Toledo promised broadly representative government of todas las sangres, or "all bloods." Mr. Toledo, of indigenous background himself, took office a year ago with a high-powered Wall Street investment banker, Pedro Pablo Kuczynski, as his finance minister.

But almost nothing has gone right in Mr. Toledo's domestic policy, and he hasn't gotten much help from Mr. Bush. The president's visit in March was in some ways notable for what he didn't bring with him: U.S. Congressional renewal of the Andean Trade Preferences Act, a measure to boost exports from Peru and its neighbors that has been snarled in debate in Washington. In June, troops had to be sent to Peru's second-largest city, Arequipa, as thousands of demonstrators took to the streets to protest the government's push to privatize two local
electrical power-generating companies. The eruption spread to other towns, leaving two dead and 200 injured, and causing $100 million in damage. The government backtracked on the privatization plan and Mr. Kuczynski and some other cabinet members exited.

Social unrest also manifests itself in crime statistics. Buenos Aires, once considered one of the continent's loveliest and safest cities, has seen a rash of kidnappings. In Venezuela, where the homicide rate has jumped 50% in three years, security measures, including armed guards and electrified fences, now account for about 15% of costs for businesses operating there. A recent Brazilian poll showed 21% of respondents think that public security is the country's No. 1 problem, up from 2% six years ago. In recent months, Rio de Janeiro police have confiscated three bazookas from drug traffickers, who boast increasingly sophisticated firepower.

Some government woes stem from centralism -- part of the legacy of colonialism -- which tends to create oversized and costly public sectors. In Brazil, inefficient state spending has forced the government to borrow heavily; about 7% of GDP goes toward interest payments, slightly less than what the country spends on its health system. Social spending in the country is poorly directed, further diluting public support for free-market reforms. Also in Brazil, a huge share of social-security outlays winds up in the pockets of a relatively small number of privileged state bureaucrats.

Tackling entrenched interests requires a political leadership that simply hasn't materialized. "The common denominator is the crisis of political parties, political institutions and lack of leadership," says Michael Shifter, senior fellow at Inter-American Dialogue. "We haven't seen fresh faces." Mr. da Silva, the front-runner in Brazil's presidential race and the candidate of change, has been a three-time presidential loser. Carlos Menem, Argentina's ex-president who in 1991 introduced the dollar-linked currency that collapsed this year, is a contender in new elections set for March.

In May, Mr. Hakim of Inter-American Dialogue wrote a memo to a group of diplomats, business executives and academics. In it, he called for a fresh appraisal of the three big ideas -- democracy, free markets and closer ties with the U.S. -- that were the basis for Latin American policy during the past decade.

"Were the ideas themselves wrong-headed, or were they badly implemented in practice?" he asked. "Are international factors mainly to blame for Latin America's poor performance -- or are the problems largely home-grown? Has U.S. policy been helpful or not?"

Mr. Hakim says he's still waiting for a satisfactory answer.
Angry Depositors in Argentina
Take It Out on Their Bankers
By MICHELLE WALLIN
Staff Reporter of THE WALL STREET JOURNAL

BUENOS AIRES -- As Argentina endures a horrific economic crisis, bank lobbies have turned into high-risk workplaces. Just ask Francisco Bidetti, an account executive at a Bank of Nova Scotia branch here.

In May, Mr. Bidetti was posted at the door to give customers bad news. The bank's Canadian parent company was halting most operations in Argentina. Since December, depositors had access to just a small portion of their savings. Throughout the banking system, the government has limited weekly withdrawals by individual depositors to just 300 pesos, about $85.

One agitated bank client threatened to get a gun unless Bank of Nova Scotia returned the $40,000 he had on deposit, Mr. Bidetti and other bank workers say. Then the depositor pulled out a syringe and stabbed Mr. Bidetti twice in the arm with the needle. Mr. Bidetti says the depositor told him the syringe contained HIV.

Mr. Bidetti has now twice tested negative for the AIDS virus, but he is still shaken. "I understand his problems, but it's just not my fault," says Mr. Bidetti.

These days in Argentina, once Latin America's wealthiest nation but now an economic disaster, bankers' hours are full of woe. Unable to vent their wrath over the deposit freeze on the five Argentine presidents who have served since December, bank customers are reaching out and throttling the neighborhood teller. In April, an enraged customer at a branch of Credicoop bank hurled a 10-inch glass vase that hit operations manager Gustavo Labitzke just above the left eyebrow. The cut required four stitches. The scars have healed, Mr. Labitzke says, but he is worried about post-traumatic stress. "They always say that these things come out much later," he says.

In the port city of Bahia Blanca, an angry elderly depositor pulled a knife on Oscar Maldonado, a bank administrator working at Nuevo Banco Industrial de Azul, according to Mr. Maldonado and the local bankers' union. "The bank workers suffer for the government's sins," Mr. Maldonado says, sighing.

Desperate Grab

The government's imposition of withdrawal limits, a policy known as the corralito, or little fence, came after Argentines made a desperate grab for deposits at the end of 2001. Argentines feared -- prophetically as it turned out -- that the government would resort to seizure of deposits and a currency devaluation to try to stem a prolonged recession and crisis of confidence. After freezing deposits, the government compounded the damage in January by devaluing the peso, which had been pegged to the dollar since 1991, in the aftermath of an economic crisis in the late '80s. Treasury Secretary Paul O'Neill, having visited Brazil and Uruguay, arrived in Argentina Tuesday night to discuss regional economic problems.

In downtown Buenos Aires, where depositors regularly gather for clamorous protests, banks have covered sleek glass facades with corrugated metal sheets and plywood. Graffiti -- much of it calling bankers thieves, or chorros, in Argentine slang -- is scrawled all over bank buildings. The bank workers union says the number of employees seeking psychological assistance has tripled since December. Fundacion Salvat, a nonprofit job-training institute, has been holding group-therapy sessions at international banks. "They went from being people who sell products to being people who tell people they can't have their money," says Graciela Filippi, a labor...
psychologist.
Norberto Roglich, a 64-year-old pensioner, who is diabetic, had been worried about having hard
cash for insulin supplies, according to his lawyer, Martin Navarro. So, in January, Mr. Roglich
bought a replica of a World War II hand grenade and strolled into his branch of Banco Bansud
in the heartland town of Tandil, according to Mr. Navarro. Brandishing his weapon, Mr.
Roglich got bank officials to hand over cash -- exactly how much neither Mr. Roglich nor the
bank will disclose. Before police could arrive at his house with an arrest warrant, Mr. Roglich
had hidden the money, his lawyer says.
The government dropped a weapons-possession charge against Mr. Roglich after determining
the grenade was fake. Prosecutors are now considering extortion charges. "This is someone who
had never run a red light in his life," says Mr. Navarro, the lawyer.
Even bankers themselves had trouble imagining how bad things could get in a country where
the peso and dollar had been used interchangeably since 1991 and banks appeared solid until
last year. Horacio Gallo, a 35-year veteran of a Banco Nacion branch in the town of San Andres
de Giles, says family members had asked him for several years whether it was safe to keep their
money in Argentina's banks. He had always assured them that it was.
Now Mr. Gallo is guilt-ridden and stressed out. "My family trusted me," says Mr. Gallo, who is
57. Finally, Mr. Gallo decided to seek psychiatric help, taking a two-week leave and making the
60-mile trip to a Buenos Aires clinic. "The way I feel now, I don't think I can return to work," he says.
Making matters even harder for bank workers, judges have granted injunctions allowing certain
depositors, claiming exceptional circumstances, to make extra withdrawals. More than four
billion pesos of approximately 60 billion pesos in total deposits have trickled out of the banking
system as a result of such court orders. Jorge Luis Illanes, an employee of Banco Nacion in the
city of San Juan, said the injunctions favor a rich few who can afford lawyers. "Ninety percent
of people will be left with nothing," he says. Carlos Martinez, the manager of a Banco Rio
branch in La Plata, ended up spending the night in jail after he refused to recognize the validity
of several court orders.

On Edge
When a group of about 50 lawyers representing depositors and armed with injunctions marched
into Banco de la Provincia de Buenos Aires in La Plata in April, a larger group of bank
employees ganged up on them. They pushed and shoved the lawyers off the premises, the
lawyers claim in a criminal complaint. The bankers even turned two fire extinguishers on the
lawyers, sending smoke billowing into the intruders' ranks, says Carlos Andreucci, head of the
La Plata bar. "A banker had been punched in the face recently, and they were on edge," says
Salvador Villano, the leader of the local bank workers union. The bank wouldn't comment.
Norma Ordonez, 81, and her husband, Roberto, 86, arrived at the branch of Banco Nacion one
morning in early May carrying an injunction granting them access to $32,000 of their savings,
according to family members. After the bank refused to honor the injunction, the Ordonezes
hunkered down in the lobby and posted handwritten signs on windows explaining their
predicament. Their daughter, a journalist, phoned other reporters who appeared on the scene. A
crowd of demonstrators showed up, beating pots and pans and chanting, "Thieves!" and "Give
the old folks their money." (Banco Nacion wouldn't comment.)
Finally after an extended standoff, the bank agreed to pay the couple within 48 hours. The
resolution came too late for one young bank worker, who suffered a panic attack, according to
bank employees. Protesters outside the bank saw him being removed in a wheelchair to a
waiting ambulance with his hands covering his ears.
O'Neill Has Words, Not Acts,
For Crisis-Stricken Argentina

BUENOS AIRES -- Treasury Secretary Paul O'Neill offered soothing words for cash-strapped Argentina but gave no indication that he would step in to speed tough negotiations between the Argentine government and the International Monetary Fund over a financial rescue package.

Even as the IMF agreed Wednesday on a $30 billion loan for Brazil -- and after the U.S. made a short-term, $1.5 billion loan of its own to tiny Uruguay last weekend -- Argentina still awaited signs that the IMF and the U.S. are willing to roll over some $10 billion in loans coming due over the next year.

"I know with the right policies in place, the people of Argentina will succeed," Mr. O'Neill said after meeting with his Argentine counterpart, Economy Minister Roberto Lavagna. "Argentina has been working very hard to implement policies that will create the basis for stability and growth."

But Mr. O'Neill pointedly added that the Bush administration sees it as the IMF's job to work out an aid and economic plan that tackles Argentina's budget deficit, installs a viable monetary policy and restores confidence in its banks.

The Argentine minister presented Mr. O'Neill with evidence that the nation's economic crisis has bottomed out in recent months, and perhaps begun to reverse itself. Industrial production has risen since April. Electricity consumption is up. The country is posting a $1 billion-a-month trade surplus, in part because Argentines can afford fewer imports, but also because exports, especially farm sales, are on the rise. Mr. Lavagna expects the...
The economy to show positive growth by year end, which would be its first expansion in years.

At the same time, Argentina is in default on much of its $141 billion in central and provincial government debt and has large repayments coming due from past loans from the IMF and other official international lenders. The next payment, $3 billion in September, represents a third of the country's foreign reserves.

In part, the slow progress in the IMF talks reflects a lack of faith in Argentina, which has been under continuous IMF supervision since 1970 and has frequently reneged on promises of fiscal sobriety. Mr. O'Neill made a point of reminding his Argentine counterpart that the Bush administration supported a $7 billion loan increase just a year ago; the IMF cut off that loan after the Argentines stopped honoring the attached policy commitments.

"There has been a chicken-and-egg problem," said Arturo Porzecanski, chief emerging-markets economist at ABN Amro Inc.

At the moment, the biggest sticking point is how the Argentines will restore confidence in the banking system, without which the economy is unlikely to recover. To keep the banks viable, the government has limited withdrawals to 300 pesos, or about $83, a week from depositors' accounts. To get around this emergency rule, many Argentines have been turning to a willing Supreme Court for permission to withdraw more -- a practice the IMF fears will drain the banks and send the peso plummeting again.

The government is trying to persuade the court to stop issuing such orders. Failing that, it plans to ask the legislature for a legal remedy. Mr. Lavagna, who sees evidence that withdrawals are already falling, said he has a secret plan in mind should both those options fail.

-- Pamela Druckerman contributed to this article.

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3
Fed Up Argentine Bondholders
Turn to Suing the Government

By PAMELA DRUCKERMAN
Staff Reporter of THE WALL STREET JOURNAL Aug 23, 2002

NEW YORK -- Fed up with waiting for Argentina to renegotiate its defaulted debt, individual bondholders from Rome to Miami are breaking with deep-pocketed institutional investors and taking the matter to court.

The energetic creditors, mostly small investors who bought Argentine bonds for their own portfolios, are hoping to seize assets belonging to the Argentine government, or at least improve their bargaining position once talks begin.

Small investors outside Argentina, most of them Europeans, control about $26 billion of the $100 billion in bonds and loans on which Argentina defaulted in December, in the culmination of a political and economic crisis.

"We could take a U.S. judgment and potentially march it all over the world," says attorney Ralph Stone, who last month filed a lawsuit in New York on behalf of three German bondholders.

Mr. Stone envisions using an eventual judgment to seize assets such as Argentine bank accounts in Switzerland or even to take possession of assets within Argentina itself. "Our claim is a straight breach-of-contract claim," he says.

Floridian Allan Applestein is awaiting judgment on claims against both Argentina's federal government and the province of Buenos Aires. While institutional investors acknowledge they will be repaid at a discount for their bonds, which are trading at around 20 cents on the dollar, Mr. Applestein is demanding payment in full. "We see it as no different from any other default on any other bond," says his attorney, Marc Dreier. So why aren't professional money managers in the U.S. and Europe, who also control some $26 billion in bonds, jumping on the litigation bandwagon? Abigail McKenna, a fund manager at Morgan Stanley Investment Management and a leader of the Argentine Bondholders' Committee, a creditors group, says such judgments are easy to get but extremely difficult to enforce. Complicating matters are international agreements and the fact that governments in default tend to quickly shield offshore assets. Embassies and military installations are exempt from seizures.

Furthermore, many big creditors prefer to give Buenos Aires a chance to get its house in order. Argentina remains deep in turmoil with presidential elections slated for March and an International Monetary Fund aid package in limbo. Officials say debt talks won't start for at least several months.

Individual investors "may make assumptions about the ease with which they're able to get a settlement if someone breaches a contract," says Ms. McKenna, a veteran of default.
showdowns with Ecuador and Russia, both of which settled through negotiations. Ms. McKenna's group hasn't ruled out litigation but believes talks offer the best chance of obtaining even a portion of the gargantuan sums involved.

Small claimants are unlikely players on the international financial stage. Past government defaults mostly involved banks and big institutional investors, or funds specializing in risky debt. But Argentina found a market for its bonds among middle-class Europeans, who were drawn to the high yields and typically intended to tuck the bonds away for years.

The groups have had a measure of success. Last month, an Italian court ruled in favor of a group of bondholders, ordering $2.3 million of Argentine assets in Italy to be frozen. Argentina is appealing the decision, which covers real-estate assets and even Italy's pending payments to organizations like the IMF, which could eventually be destined for Argentina.

The claimant groups also point to a legal precedent. In October 2000, Peru paid $56 million to settle a claim by Elliot Associates LP, a New York hedge fund. It was a complicated strategy, however: Elliot had bought Peru's loans when they were already in default, then refused to participate in an organized restructuring and waged a four-year legal battle to seize various assets.

Such intricacies don't deter Stefan Englesberger, a former shopkeeper who works full time organizing a German bondholders group. About 100 members recently gathered for a weekend in Inzell, Germany, to draft what Mr. Englesberger terms a "manifesto" and plot their course of action. Group members also traveled to the U.S. to meet with lawyers and the IMF. To further its cause, the group is even using the Internet to sell beer steins embossed with its logo.

"I call this a policy of pinpricks," says Mr. Englesberger, explaining that he wants to make Argentina so uncomfortable that it can't ignore him. He adds: "We have the strong will to show the financial world we have means, we can do something -- that it's not so easy to default."
INTERVIEW: Argentina's Lavagna Hopeful On IMF Debt Relief

By TOM DARIN LISKEY
Of DOW JONES NEWSWIRES

BUENOS AIRES -- As a new International Monetary Fund mission arrived to grade Argentina's fiscal performance, Economy Minister Roberto Lavagna said he remains hopeful the country can secure a debt relief program despite recent signs that talks have stalled.

"We are keeping the same proposals that we have had on the table since July. We want an accord through December 2003 to give the next presidential administration time to get itself organized," Lavagna told Dow Jones Newswires in an interview Tuesday. But Argentina has also scaled back its aspirations almost nine months after the IMF suspended its rescue program, just before the country defaulted on most of its public debt in late December.

"We want a roll over for this year and next. We are not talking about fresh cash," said Lavagna as an IMF team touched down in Argentina for a visit that wraps up Thursday.

Over the weekend, President Eduardo Duhalde signaled that talks have bogged down and that it will be up to the next administration to sign a long-standing aid agreement.

Lavagna has tried to tailor much of the country's economic policy to meet IMF-mandated requirements since he was appointed to head the ministry at the end of April.

But a contentious Congress and Supreme Court have sideswiped Argentina's economic reform path and a deepening political paralysis undermines Duhalde's efforts to make the tough political decisions Argentina needs to win an agreement.

"At this moment, there's not any new economic requirements (for an aid agreement.) There is however a certain idea that there is a lack of political consensus to definitively support an accord," acknowledged Lavagna.

Duhalde recently pushed presidential elections ahead six months, to March 2003, and since then politicians and presidential hopefuls have been calling for Argentina to break off negotiations with the IMF.

Lavagna said that the Duhalde administration is trying to shepherd rebellious congressional leaders and governors into its camp for an aid agreement.

Complicating matters, though, Duhalde has been unable to win the rulings he needs from the Supreme Court to halt court-awarded injunctions forcing banks to return frozen savings to account holders. Duhalde also faced new contretemps when Justices ruled that a 13% cut in civil servant salaries and pension checks decreed last year was unconstitutional.

Bondholders To Be Addressed After IMF

The IMF's dogged demand that Argentina give more detail on its plans to overhaul the financial system and restructure state-run banks has hobbled Duhalde from signing the long-sought bailout agreement.

But Lavagna insisted the differences aren't as big as some might imagine.

"We've meet all the economic pledges and we've clearly shown our willingness by paying ($3.4 billion in debt) due to international lenders," he noted. "We'll see what emerges in the next two or three days."
Private sector bondholders, who hold an estimated $100 billion in Argentine debt, haven't been as fortunate as multilateral creditors when it comes to getting paid. Lavagna said he's taking a pragmatic approach to renegotiating the roughly $50 billion in defaulted debt held by foreign bondholders.

"As soon as we sign an (IMF) accord, we'll begin talks with bondholders," he said. Lavagna said that the government will hire a bank, or group of banks to, help the nation in restructuring its billions of dollars in defaulted debt.

Argentina halted servicing most of its $141 billion public sector debt during last December's social and political upheaval, when enraged Argentines chased four presidents from office.

Concerning the government's plan for bank clients to swap their frozen term deposits, he said the government would revive its own bonds-for-savings exchange while private banks will offer their clients their own bonds.

"Clients will have a choice between choosing (banks') papers and government debt," he said, adding that details would emerge in the coming days.

Most bank clients snubbed July's voluntary swap of savings accounts for government bonds.

In recent months, Argentina has shown patchy improvements in the economy. The country's monthly trade surplus rose to $1.4 billion in July and tax collections in August jumped 16.4% in local currency terms to 4.73 billion pesos ($1=ARS3.635). Some of the data - particularly tax revenue - is less impressive if you take into account that the peso has shed around 70% of its value since the government scrapped a currency board in January. Still, Lavagna said that these signs of life in the ravaged economy are pointing to increased economic activity later in the year.

"Next year, we expect the economy to grow 3%," he said. For 2002, he reckoned the gross domestic product will contract 12%. Argentina's economy contracted 16.3% in the first three months of the year, as a recession that began in mid-1998 deepened.

The government is currently working on its draft budget for 2003. While declining to detail its spending plan, Lavagna said that it would be submitted to Congress soon.

-By Tom Darin Liskey, Dow Jones Newswires; 5411-4314-2757; tom.liskey@dowjones.com

Updated September 3, 2002 6:28 p.m. EDT

Argentine Court Rejects Conversion of Deposits

By THE ASSOCIATED PRESS

BUENOS AIRES, Sept. 14 (AP) — Argentina's Appeals Court declared a January decision to convert bank deposits from dollars into pesos unconstitutional on Friday, handing the government another headache.

The court also ruled that a nine-month-old partial banking freeze introduced by the government of former President Fernando de la Rúa was illegal. The court
also said it was illegal for President Eduardo Duhalde to put a 120-day ban on
lawsuits by Argentines seeking to recoup their savings.
Economy Minister Roberto Lavagna said the government would appeal to the
Supreme Court. It is not known when that tribunal would examine the issue.
The ruling is seen as hampering a speedy International Monetary Fund
agreement for Mr. Duhalde, who has dispatched two of his top officials to
Washington to sign a debt relief agreement.
The case was presented by the national ombudsman, Eduardo Mondino. The
decision sets a precedent for similar lawsuits. However, each account holder
would still have to initiate separate legal proceedings against the rulings in order
to have their money converted back into dollars or freed up from banking limits.
In one of the first acts of his administration, Mr. Duhalde ordered that all dollar
deposits be transferred into pesos at the rate of 1.4 pesos to the dollar.
The decision came just days after Mr. Duhalde brought an end to 11 years of
linking the peso one-to-one with the dollar. Since then, the peso has plunged 72
percent and the exchange rate is now 3.6 pesos to the dollar.
Mr. Duhalde's actions came after weeks of economic and political chaos that saw
four presidents come and go in 13 days, Argentina's default on $141 billions in
public debt and the de la Rúa government's introduction of cash limits on Dec. 1
in a bid to stop a run on bank deposits.
Friday's ruling will also complicate the government's efforts to persuade the
International Monetary Fund to roll over its debts through 2003.
Argentina owes nearly $5 billion to the international agency over the next nine
months and is trying to persuade the monetary fund to allow a postponement in
payments rather than force authorities to dip into diminishing currency reserves
to pay back the debts.