The New York Times
nytimes.com

February 11, 2003

Argentina Struggles to Meet Debt-Relief Terms

By LARRY ROHTER

BUENOS AIRES, Feb. 10 — Less than a month after Argentina won some relief from the International Monetary Fund on repayment of nearly $7 billion in debt, doubts are intensifying over how the country, stuck in a five-year economic slump, will be able to satisfy even the modest conditions imposed by the fund for that reprieve.

Major elements of the interim agreement, announced Jan. 17, must be ratified by the Argentine Congress by the end of March. But the lame-duck government of President Eduardo Duhalde has said the most difficult policy changes required by the agreement will have to be deferred until after the presidential election scheduled for April 27.

Even if Argentina can honor terms of the interim agreement, a definitive, long-term accord that would reopen credit lines remains elusive.

Under the interim agreement reached after a year of negotiations, the fund agreed to roll over, or reschedule, about $6.8 billion in Argentine debt that is due through August. That accord also enabled Argentina to roll over a further $4.4 billion owed to other international creditors.

But the economy minister, Roberto Lavagna, who negotiated with the fund, said last week that he worried that the fund's officials would pressure whomever wins the election for painfully stringent actions that Argentina fears would make economic conditions worse. Those actions include imposing sharply higher utility rates, creating bigger budget surpluses and severely restricting the amount of money in circulation.

"They shouldn't pressure the next government," Mr. Lavagna said. "I don't want surprises."

Despite the lack of an accord with the fund through last year, Argentina was able to avoid the hyperinflation widely predicted after its currency collapsed in January 2002, and industrial output and other economic indicators eventually began improving. With the economy still extremely weak, though, many business groups and economists here fear that the fund's demands for more austerity will destroy that recovery.

"It is clear that the country is going to have to make an enormous effort to meet these fiscal and monetary goals," said Hector Valle, a pro-government economist here.

Among the proposals pending in Congress are bills to end tax breaks granted to exporters and transport companies. Those tax breaks had helped slow the decline in the Argentine economy, which shrunk by more than 10 percent last year.

Even before legislators begin debating the proposals, Mr. Duhalde's government appears to have clashed with the monetary fund over the issue of utility rates. The government has announced electricity and gas price increases of about nine percent and said that similar rises in telephone and water rates are on the way. "Rates have to go up, but in a gradual form," Mr. Duhalde said last month.

Government officials say the monetary fund, in contrast, has been calling for rate increases of up to 50 percent, echoing the position of utility companies, which passed to foreign ownership after they were privatized in the 1990's.

In addition, the Peronist Party, which Mr. Duhalde nominally leads, is deeply divided and plans to offer three candidates in the April election. While one candidate, the former president, Carlos Menem, appears to favor the program the fund has urged on Argentina, two other more popular Peronist candidates have hinted they would renationalize the railway system and petroleum and mining resources.

The January accord also calls for Argentina to guarantee a primary surplus — a budget surplus with interest payments excluded — equal to 2.5 percent of economic production. Though that goal has been criticized as too permissive by conservatives, it has been criticized by many here as both unrealistic and harsh.

Mr. Duhalde, who took office 13 months ago, is scheduled to leave office May 25. With the campaign to succeed him well under way, his authority is diminishing, which increases the risk that provincial officials will be tempted to indulge in a quick burst of spending in hopes of winning votes.

The accord signed with the monetary fund demands that Argentina's 24 provinces achieve a 0.4 percent primary surplus this year, a substantial improvement from the 0.5 percent deficit they registered in 2002. Provinces must also stop issuing the bonds that have been widely used for the last 18 months to pay local government employees and suppliers. The country currently has more than a dozen such methods of payment, which function almost identically to cash and account for an estimated 25 percent of all money in circulation.

Government officials have calculated that it may take up to 18 months to remove all the bonds from the money supply. It was the central government's inability to achieve a balanced budget, despite repeated promises, that led to the fund's decision in December 2001 to cut off its credit line to Argentina.

"In my opinion, the fund failed to help us during the worst time in our history," Mr. Duhalde said shortly after the agreement was announced. "They have been hostile to us."