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A Currency We Can Call Our Own: Populism, Banking Crises, and Exchange Rate Crises in Argentina, 1946–2002

My dear friend: Give the people, especially the workers, all that is possible. When it seems to you that you are already giving them too much, give them more. You will see the results. Everybody will try to frighten you with the specter of an economic collapse. But all of this is a lie. There is nothing more elastic than the economy which everyone fears so much because no one understands it.

— Juan Peron, 1952 letter to newly elected Chilean president, Carlos Ibáñez del Campo¹

As night fell on Friday, May 4, 2001, residents of the Floresta neighborhood in Buenos Aires converged on the local “*club del trueque*” (barter club). Pedro Perez arrived carrying a bag of shoes, sneakers, and shoe polish. His hope: to exchange some of these items for fruits, vegetables, and some handmade clothes. Still employed at a shoe factory, he could no longer count on receiving his salary in cash. Instead, he sometimes was forced to accept his pay in goods that he would later take to one of the more than 450 barter clubs that emerged throughout the country. The first barter clubs had appeared during the 1995 crisis, when investors fled the peso following the Mexico Tequila crisis. But by early 2001 almost 2% of the adult population was using *creditos*, the “money” issued in these clubs. By January 2002, as the money supply contracted by 17.6% over the previous year, the fraction using *creditos* would come to exceed 9%.² (See **Figure A** for a photo of a *trueque* gathering in 2002.)

A pre-colonial form of commerce, barter had subsided following the Spanish conquest, with the possible exception of some isolated, rural enclaves in the least developed parts of Latin America. Its current reincarnation in Buenos Aires covered a surprising range of goods—from food (and other basic goods) to services like dental work, plumbing, psychological counseling, and tarot-card reading. By mid 2001, *creditos* in circulation exceeded 7 million pesos (or dollars) and were growing rapidly. The latest type included a bar code to guard against counterfeiting.

“Ever since Brazil devalued two years ago, my factory has not been able to compete. They pay us in shoes to keep the business from collapsing until the economy picks up again—if it ever does,” Pedro Perez reasoned.³ Susanna Rios, an unemployed housewife who brought a bag of toys to trade, pointed out, “We use the *trueque* as a kind of therapy... It’s a chance to leave the house, make friends, and supplement the family income.”⁴ Barter clubs were the symptom of a serious crisis that engulfed

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Argentina. The economy had contracted for two years in a row. With unemployment and poverty on the rise, the country now appeared to be running out of cash. (See **Exhibit 2** for selected indicators.)

Figure A Shopping in Alderetes Barter Club, Tucumán, Argentina, 2002



Source: Mariana Colacelli and David J.H. Blackburn (2009). "Secondary Currency: An Empirical Analysis," *Journal of Monetary Economics*, 56, 3, pp. 295-308.

Ten years earlier, in 1991 and cornered by hyperinflation, the Peronist government of Carlos Menem had set up a currency board: under the Convertibility Law, Argentina's Central Bank exchanged dollars for pesos at a 1:1 rate. It made it illegal for the central bank to increase the nation's monetary base or issue credit unless it had backing in U.S. dollars. While initially successful, by 2001 the Convertibility plan was facing several challenges. Following the sudden resignation of the nation's Vice President and the breakup of the ruling coalition, foreign investors had begun to flee the country, draining the dollar reserves of the central bank. Rolling over the government debt was a challenge, and the recession was making things even more difficult.

Living in the Shadow of Populism⁵

Argentina had entered the twentieth century as one of the world's most prosperous nations. Sometimes called "the granary of the world," its food exports were enormously successful during the first wave of globalization in trade and capital markets. An elite that looked to Europe and the US as models of development governed a democracy only in name. But the country soon experienced a steady decline relative to other countries as uncertainty accompanied the political inclusion of women and working-class voters. A key political figure was Juan Peron, an army colonel who rose to power in 1943. Peron's peculiar mix of interventionist and pro-labor policies, as well as overt attempts at industrialization left indelible marks on the country's political and economic landscape. A charismatic figure, his speeches reveal part of his mindset and populist appeal:

People were faced with the idea that ...the ruling class of the country, its elite, was made up of wise, rich, and kind people. It has to be pointed out that the wise have rarely been rich and the rich have rarely been kind.

— Juan Peron, October 15, 1944

It used to be easy for capitalists: when there was a strike, workers were put in jail.... Workers confronted the situation, but the result was several thousand men dead, while the oligarchs were all home having their "five o'clock tea."

The monopoly, be it called ... Bunge y Born, Dreyfus, etc. ... was the one doing the gathering ... the poor producer received six pesos and this intermediary octopus received thirty or forty for what somebody else had produced.

— Juan Peron, August 9, 1950⁶

Voters valued Peron's interventionist policies, even if some inflation ensued. He was eventually ousted by a violent *coup d'état* and banished from political life by a succession of military-backed governments. Several of them introduced orthodox economic programs, and in so doing they often reduced wages. In the early to mid-1970s, left-leaning guerrilla groups—including the *Montoneros*—challenged the State, rendering the country virtually ungovernable, even after Peron's proscription was lifted. He returned to power in 1973. His policies again raised real wages: the workers' share of GDP reportedly reached 50% in 1974⁷—"fifty-fifty" being Peron's symbolic target.

But the oil shocks of the 1970's and some odd policy choices soon tested Peron's program: a complicated network of price controls and multiple exchange rates had introduced shortages and an extensive black market. The fiscal deficit grew and inflationary pressures could no longer be contained. An adjustment in prices followed. Known as the "*Rodrigazo*,"^a it included a 150% devaluation of the "commercial" exchange rate and a 180% increase in the price of fuel. The value of the dollar soared and prices doubled in three months. Wages, on the other hand, were adjusted 45%. The labor share contracted, eventually reaching 1/3—a far cry from Peron's "fifty-fifty." Amid rampant violence and illegal state-sponsored repression, a right-wing military faction seized power in 1976. Argentina's infamous Dirty War—which lasted throughout the military regime—left deep wounds, including thousands who "disappeared" (i.e., were murdered).

By March 1976, the month of the military's *coup d'état*, annual inflation rate reached 3,000%.⁸ Soon, the dollar took over as unit of account. In an attempt to control inflationary expectations, the military government effectively fixed the exchange rate. A series of privatizations and deregulatory measures were implemented to the approval of international investors eager to lend recycled petrodollars. Tariffs were also lowered as infant-industry arguments for protectionism were seen as unpersuasive by members of the economic team, some of them trained at the University of Chicago. The "Chicago boys" also favored financial liberalization, which allowed banks to lend freely and set higher rates to capture deposits. Deregulation included relaxing entry requirements. The number of banks rose to 219 (from 119). Lower inflation and positive real interest rates led to the growth of bank deposits (from 5.9% of GDP in 1976 to 16.5% in 1980).

As inflation proved hard to contain, particularly given the regime's high fiscal spending, the currency became overvalued. Goods that could be traded appeared cheap as workers felt some sense of economic well-being. Argentines took to traveling abroad, borrowing heavily in dollars during the period of the "*plata dulce*" (sweet money). (A joke at the time was that the poor went to Uruguay for summer vacations, the middle class went to Brazil, and only the rich could afford to stay home).⁹ Industrial sectors suffered as the opening up of the economy combined with the cheap dollar.

Difficulties in one relatively small bank soon evolved into a bank run. By the end of 1980 the Central Bank had taken over control of 60 banks. The military's economic plan soon collapsed. The

^a Named after economic minister Celestino Rodrigo, who referred to his program as an attempt to make prices "sincere."

exchange rate had to be allowed to float and the peso quickly lost value. Firms were unable to face payments on foreign debts with soaring valuations. Some argued that private defaults would affect the country's standing and lobbied for "*seguros de cambio*," a type of exchange-rate hedge issued *ex-post* that effectively transferred the private debts to the state. Argentina's foreign debt exploded (from under US\$8 billion in 1975 to almost US\$45 billion in 1983). Economic mismanagement was accompanied by the 1982 invasion of the Malvinas/Falkland Islands.

After Argentina lost the war, democratic elections were called. Raúl Alfonsín of the Radical Party^b was elected president, a first for a non-Peronist in a clean election since Juan Peron's entry into politics in 1946. Assuming the presidency on December 10, 1983, Alfonsín attempted to deal with the country's legacy of violence and illegality. He reconstituted the Supreme Court, offering key slots to accomplished jurists, including some independent figures (he even offered a slot to Italo Luder, the defeated Peronist presidential candidate). Just three days after his inauguration (December 13, 1983), Alfonsín signed a decree initiating the prosecution of military officers responsible for human rights violations. In 1984, in an attempt to rein in government spending, Alfonsín substantially cut the military budget (from 6.0% to 3.7% of GDP),¹⁰ further fueling military discontent. Military uprisings followed, forcing Alfonsín to limit the scope of prosecutions and weakening his mandate.

Two Hyperinflations

Alfonsín's initial plan was to avoid a drastic fiscal and monetary contraction. A gradualist plan to control inflation through income policies included negotiations with unions and employer's associations to contain wage and price increases. These agreements soon proved ineffective. By the end of 1984, inflation had risen to monthly levels above 20%. The demand for dollars intensified amidst low confidence and an adverse international context: the Latin American debt crisis was now in full swing and any international "credit" that was made available simply had to be used to repay the debt in arrears (i.e., no fresh money was forthcoming). The IMF became the target of populist attacks and Peru's president, Alan García, who had limited debt repayment to 10% of exports, was hailed by the left (and criticized by the right) as a model to be followed.

A stabilization plan was then launched: in 1985 the "Austral Plan" introduced a new currency (the *Austral*) and fixed its exchange rate *vis a vis* the US dollar. Having studied the German 1923 hyperinflation, economists in government argued that it was necessary to have a "clean break" with the past that would change inflationary expectations. With this aim, the plan also froze wages and prices temporarily. In an attempt at deficit reduction, it also cut subsidies, raised export taxes, and introduced a "forced savings" scheme (essentially a new tax). As inflation fell, the value of tax collections increased. It also increased the demand for *Australes*. The fiscal consolidation was successful: by 1986 the primary deficit stood at 1% of GDP. A novel feature of the plan was the "*desagio*": because nominal contracts had been including the expected inflation, a law had to be passed to preserve the intended values (for example, contracts committing rent payments into the future had to be reduced by the inflation rate anticipated at the time the contract was signed).

Attempts to privatize state industries were less successful. For example, a plan to sell a minority stake in the state-owned airline was fiercely opposed by the Peronists and the trade unions. Convinced that his political survival depended on weakening the Peronist traditional link with labor, Alfonsín tried to pass legislations that would undermine the nation's powerful unions. Eventually, the tenuous economic "truce" unraveled as he granted wage increases to sympathetic unions. In

^b The UCR, supported by progressives and the middle class, was the main democratic opposition to the Peronists.

September 1987, Alfonsín's Party lost the lower house, signaling the demise of the Austral Plan. Alfonsín's gamble against organized labor did not pay off: the unions' persistent opposition lasted throughout his presidency – there were 13 general strikes called between 1984 and 1989.

The government's weak fiscal position was a continuing preoccupation. With difficulties in accessing markets for its debt, the government often had little option but to print ("monetize the deficits"). One class of problems originated in the pressure for redistributive programs in a democratic, federal system with strong provinces and trade unions. Another was populist demands for heterodox policies, perhaps originating from the fact that mainstream policies, considered "serious" by the media, had been implemented by authoritarian, elite-leaning, right-wing governments. Government spending increased as the fiscal deficit approached 8% of GDP in 1988.

Following the failure of another stabilization plan, trust in the local currency plummeted and Argentines took refuge in the U.S. dollar. As capital flight increased, all transactions were priced using the (soaring) value of the dollar. By 1989, inflation had reached over 3,000%. (See **Figure B**.) With the country in a hyperinflation, the World Bank suspended debt negotiations.

Figure B Fiscal Deficit, M2, Inflation and the Dollar, 1984 to 1989

Year	1984	1985	1986	1987	1988	1989	1990
Fiscal Result	-8.0	-4.5	-3.5	-5.0	-6.0	-3.8	-2.8
M2	22	17	20	22	25	20	11
Inflation	627	672	90	131	343	3,080	2,314
Devaluation	518	639	50	164	292	4,770	838

Source: Gerchunoff and Llach (1998). Note: Fiscal Result and M2 expressed as a % of GDP. M2 is money in circulation, savings deposits and funds owned largely by households that can be used for spending. Inflation is the annual % change in the consumer price index. Devaluation is the annual % change in the exchange rate (price of the dollar).

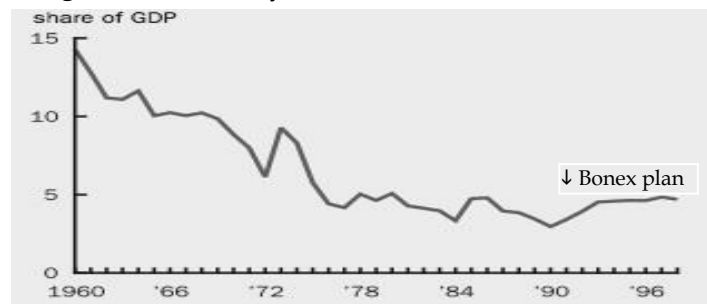
In the midst of food riots, the candidate of the Peronist Party, Carlos Saúl Menem, campaigned on a promise of a "*salariozo*" (a massive wage hike), stability without austerity, and the recovery of the Malvinas/Falklands through "blood, sweat, and tears." Canvassing the country aboard a minibus painted with the Argentine flag's white and sky-blue, he repeated his campaign slogan ("Follow me!") in emotional speeches: "For the hunger of poor children, for the sadness of rich children, follow me! I'm not going to let you down!"¹¹ Economists writing in the main newspapers noted the difficulty if some of these policies were to be implemented. Voters did not appear to worry as Menem won the May 1989 presidential election, with the economy taking a nosedive.

Like his predecessor (and successors), Menem emphasized the economic imbalances "inherited" from previous administrations and launched a new stabilization plan. In a move that surprised even some of his closest allies, he called on members of the elite to join his government. Perhaps the most radical decision was his appointment of an economic minister suggested by the multinational business group Bunge y Born.^c The "Bunge y Born" plan included a devaluation of the exchange rate, and a "truce" in prices negotiated with other business groups. As fiscal pressures intensified, the government's ability to roll over its short-term debt came into question. The government requested "loans" from the banking system, as thirty-day deposits received rates in excess of 350%.

^c Bunge y Born was a large multinational corporation based in Buenos Aires. It had a traumatic past with Peronism: the company's near monopoly on cereal exports had been curtailed by Peron's first administration. Its headquarters had been moved to Sao Paulo, Brazil after the Peronist guerrilla group *Montoneros* kidnapped two family members (they were released after the payment of a US\$ 60 million ransom – the largest on record at the time).

The country fell into hyperinflation once again. As depositors in these banks became unsure about the government's ability to repay these "loans" (and, by extension, about the commercial banks' ability to return the money to depositors), a second stabilization plan had to be launched: the "Bonex plan," so-called because a key component was a compulsory exchange of the public's bank deposits for longer-term government bonds (called Bonex; the Supreme Court would later confirm the legality of this decision). It was estimated that over half the monetary base was confiscated this way, as the demand for money reached the lowest figure in 100 years (see **Figure C**). The economy contracted by 6.9% in 1989 and another 1.8% in 1990 (see **Exhibits 2, 3 and 4** for GDP data and other indicators).

Figure C Currency in Circulation as a Share of GDP¹²



The Convertibility Law of 1991¹³

By 1991, Menem's Harvard-trained economic minister, Domingo Cavallo, managed to bring about a decisive plan to deal with inflation. Enacted by Congress in March, the Convertibility Law pegged the local currency to the U.S. dollar at a fixed exchange rate of 1-to-1, at which the Central Bank was obliged to convert currency. It also required that the reserves of the Central Bank at all times be equivalent to 100% of the monetary base, defined as all currency circulating in the public plus the banking system reserves required by the Central Bank.^d In addition, convertibility eliminated indexation of prices and wages and created an independent Central Bank with a term for the Bank's president longer than the government's electoral cycle. It also made the U.S. dollar legal tender.

The rationale was to send investors the most credible signal possible of the government's commitment to stability and monetary and fiscal discipline. Unlike under prior fixed exchange rate regimes, the Central Bank could no longer intervene in a slowdown by easing the money supply through open market operations. In the past, these interventions had avoided contractions in the monetary base (and thus avoided higher interest rates and recessions) but sacrificed reserves in the process. The currency board, by contrast, imposed a rigid mechanism for monetary discipline. The Central Bank could now ease the broader money supply (such as M1) only through measures that did not compromise the full backing of the monetary base (e.g., changing reserve requirements of banks). The Central Bank was also prohibited from extending credit to commercial banks.

Moreover, such a mechanism would function automatically during an adverse shock, free of government discretion, through a natural adjustment in interest rates. In the case of an overvalued peso, imports would exceed exports. With the Central Bank simply converting the extra pesos into

^d Originally, 10,000 *Australes*, the local currency at the time, were pegged to 1 U.S. dollar. As of January 1992, 10,000 *Australes* were converted into 1 peso. Unlike under a true currency board, the Central Bank of Argentina was allowed to use Argentine government bonds denominated in U.S. dollars to back up to 20% of the monetary base. After 1995, this was increased to 1/3. In practice, foreign reserve coverage was kept close to 100% — except during the Mexican crisis (see **Figure D**).

dollars, the money supply would shrink. Liquidity constraints would drive interest rates higher. A higher interest rate would dampen investment and economic activity, until imports dropped to the level that could be afforded with the new level of exports. A high interest rate would also attract capital inflows and thereby ease the adjustment process. In the most extreme example, the Central Bank was expected to allow a massive conversion of pesos for dollars (until the monetary base was essentially zero), rather than break the peg.

A currency board of this kind was feasible at the time mainly because the Argentine economy was already heavily ‘dollarized.’ Even though the local currency remained legal tender, the U.S. dollar had effectively become the preferred store of value and unit of account. Most large transactions were denominated in dollars. Furthermore, the bulk of resident savings were held offshore in dollar accounts (as much as 100% of GDP against less than 5% in local deposits).¹⁴ In fact, by the end of 1989, about 80% of Argentines’ total liquid assets were invested in foreign financial instruments. Recent hyperinflationary episodes had reduced the monetary base to manageable levels (see **Figure C**), and net international reserves were sufficient to support the peg at the chosen rate.

In reflection, Cavallo said of the Plan:

The most important aspect was the decision to legalize the use of the dollar as the currency both for transactions and for financial intermediation—something that people had been doing for some time to defend themselves from inflation but which was illegal.

... The most important decision was ... to give people the freedom to elect either the dollar or the peso ... and to allow the financial system to function with both currencies. That decision created the security for the people that the government would respect the commitment of the currency board. Why? Because as soon as the government would take a decision to devalue or place the value of the peso at risk, everyone would automatically switch to dollars. It was this freedom that people had that required the government to defend the value of the peso.¹⁵

Without the ability to print money to cover the deficit, and without any loans forthcoming, the government was forced to enact a fiscal retrenchment. The result was an almost immediate reduction in inflation. Although economists often explained that controlling inflation required an economic recession, the economy grew over 9% per year in 1991–2.¹⁶ The newfound stability helped Menem enact far-reaching free-market reforms—including the elimination of price controls and tariff reductions. Menem’s approach departed radically from Perón’s brand of state-led development, and was in line with the so-called Washington Consensus prevailing at the time.^e

Menem’s government embarked on a series of privatizations. The first wave included the state-owned airline, the system of toll roads, and the telephone companies. Critics charged that near-monopolies had been created and that corruption had entered the privatization process. There were also some dramatic improvements in service (for example, in the connection time for a new phone line following the selling of the telephone company to France’s *Télécom* and Spain’s *Telefónica*). In 1992–3, Argentina’s ports were privatized and deregulated. After years of declining ship traffic, the commercial ports attracted new business following lower prices and service improvements.¹⁷

YPF, Argentina’s largest oil producer, was restructured and then sold off. Employment reduction (from 52,000 employees to 10,500) and other policies improved the bottom line (from an estimated \$1

^e The “Washington Consensus” described a set of policies for economic stability and growth prescribed by the IMF, World Bank, and the U.S. Treasury—all based in Washington, DC. Critics faulted them for their inflexibility and “market fundamentalism.” Argentina adhered to these policies and was sometimes described as the “IMF’s best pupil.”

billion loss in 1991 to a \$1 billion profit in 1993). In July 1993, a mixed IPO resulted in a change in ownership: 59% private sector, 31% public sector (federal and provinces) and 10% employees. During the first round, \$3 billion in cash, plus debt retirement were obtained. This was made possible, in part, by the Brady Plan, an attempt to reduce the debt burden of developing countries by inducing international banks to swap old debt for new paper at a discount. Since such debt could then be used to participate in privatizations, bond markets rallied amidst low interest rates in the US. The YPF privatization was actively supported by the young governor of the Santa Cruz Province, Nestor Kirchner, where YPF had operations.^f The IMF actively encouraged these reforms, calling some of them “structural” (they included social institutions such as the pay-as-you-go pension system which got changed into one with individual accounts).

It was hoped that these privatizations, paired with deregulation, would reduce the burden of inefficient government, improving productivity. Foreign direct investment was also encouraged. At the time, there were signs that the local currency was becoming overvalued, which came to worry overseas investors. Following the launch of the Convertibility Plan, Argentine inflation had taken time to fall to American levels. For example, the annual inflation rate in Argentina in 1992 reached 25%. The trade balance swung into negative territory in 1992. With the currency board’s dollar-peg in place, some were concerned about an overvalued exchange rate, while others argued this had been caused by a higher demand for imports during the economic expansion (see **Exhibits 5a, b, c**). It would take two years before inflation settled down to international levels.

Menem also produced a drastic realignment of Argentina’s international alliances. He abandoned the Non-Aligned Movement and joined the 1990-1 U.S.-led coalition for the first Gulf War. In fact, Menem was criticized domestically for an excessive alignment with U.S. interests. Integration with the world economy increased dramatically. Foreign direct investment from traditional rivals like Chile and the United Kingdom boomed. Part of this process was billed as a “normalization” of Argentina as trade and capital flows recovered the levels that could be expected by a country of Argentina’s level of development. But Menem’s government had been interested in attracting foreign investment for another reason: since launching the Convertibility Plan, any dollar that came into the country was converted into pesos, expanding the money supply. Many had observed that, historically, there appeared to be a tight association in Latin America between capital inflows and economic activity, but now this link had become a central feature of the economy (see **Exhibit 13**).

Tequila Crisis and Banking Reform

In 1994, with one year left in his term, Menem managed to amend the nation’s constitution to allow him to run for re-election. As fate would have it, this coincided with a dramatic reversal of economic conditions. In late 1994 the Tequila crisis was ravaging Mexico. Contagion to countries perceived by investors as similar to Mexico ensued as prices of sovereign bonds fell throughout Latin American. In Argentina, capital flight produced a large monetary contraction.

As confidence returned under convertibility, dollar reserves at the central bank had grown considerably, from over \$5 billion in 1991 to approximately \$15 billion at the end of 1994, with the corresponding increase in the supply of pesos (see **Figure D**). The banking system had “multiplied” this liquidity, holding almost \$50 billion in total deposits. But in the first three months of 1995,

^f As an aside, Nestor Kirchner’s management of the province’s proceeds from this sale (approximately US \$500 million) was unorthodox. First, following Cavallo’s advice, he invested in YPF stocks and other financial instruments, doubling their value. He then moved them abroad to keep them “safe,” although no precise information on the terms was made available. Later, during his presidential campaign in 2002, it surfaced that Kirchner had deposited the funds in various Swiss banks. It was rumored that US \$200 million had been lost in a Russian fund that defaulted in 1998.

investors holding pesos considered the returns not worth the risk, and started reversing their positions, even as interest rates increased. By March, reserves of dollars (and other foreign assets) at the central bank dropped by a third, reaching just 66% of their December levels. Most banks experienced serious difficulties (and a small number had to be closed). One problem was standard: as interest rates increased borrowers had trouble repaying or rolling over the debt. But an added, key difficulty was that the central bank's reserves only covered the currency in circulation, not the public's bank deposits. Because the central bank could not print (without a dollar loan), it could not act as a lender of last resort. During January-March the Central Bank lost more than 3bn dollars in reserves. Argentina's banking system was soon on the brink of collapse.

Figure D Reserves and Monetary Base

Date	Reserves	Monetary Base	Backing (%)	Date	Reserves	Monetary Base	Backing (%)
1991	5,594	6,093	92	Mar-95	10,114	12,383	82
1992	8,809	9,256	95	Apr-95	11,155	13,639	82
1993	12,314	12,987	95	May-95	10,768	13,287	81
Jan-94	15,195	16,376	93	Jun-95	11,804	13,185	90
Feb-94	15,125	16,162	94	Jul-95	12,403	14,671	85
Mar-94	14,574	14,822	98	Aug-95	11,252	13,520	83
Apr-94	14,242	15,380	93	Sep-95	11,565	13,824	84
May-94	14,663	15,718	93	Oct-95	12,135	14,207	85
Jun-94	14,667	14,458	102	Nov-95	12,246	13,998	87
Jul-94	14,985	16,087	93	Dec-95	15,049	16,405	92
Aug-94	14,895	15,922	94	1996	15,884	17,230	92
Sep-94	14,395	14,372	100	1997	19,561	19,892	98
Oct-94	14,264	15,432	92	1998	22,744	22,563	101
Nov-94	13,972	14,978	93	1999	23,733	23,777	100
Dec-94	15,314	16,268	94	2000	25,760	25,534	101
Jan-95	13,572	14,310	95	2001	19,465	18,715	105
Feb-95	12,818	14,142	91	2002	10,883	28,512	40

Source: *Carta Economica*, Estudio Broda.

Note: The monetary base in this table referred to the monetary base, as reported by the Central Bank of Argentina (BCRA), plus repos—i.e., repurchase agreements whereby banks in the Argentine financial system lent dollars to the BCRA in exchange for pesos.

During March the government announced an agreement with the IMF for U\$2.4 bn (renewal and extension of the Extended Facilities Program), as well as a loan from the IDB/World Bank for 2.6 bn dollars. They also announced the subscription of a new public bond for 2 bn dollars. Part of these funds was used to capitalize banks that were in trouble and assist them in merging with stronger banks. They also launched an insurance scheme for depositors (insuring up to 10,000 dollars for accounts with less than 90 days maturity and up to 20,000 dollars for those maturing longer), financed with new contributions by local financial institutions. This slowed the bank run and country risk soon improved 305 basis points (going from 1190 on March 31 to 885 on May 15; see **Exhibit 9** for bond spreads). In spite of rising poverty and crime, and rising unemployment (which eventually exceeded 18%, see **Exhibit 8**), Menem comfortably won the national election held in May 1995.

Soon capital inflows returned. During Menem's second term, fewer economic reforms were tackled. The main one was a consolidation and increased oversight of the banking system. There were several mergers and eventually, 9 out of the 10 largest banks were foreign owned (the exception was *Banco de Galicia*). Some argued this was desirable, for it was hoped that the foreign banks would come to the rescue of the local branches in the event of another run. The authorities also lengthened

the maturity of public debt and developed a novel approach to accessing liquidity. In October 1998, Menem attended the IMF meetings and shared the podium with the Managing Director, who explained approvingly, “Argentina has a story to tell the world.”¹⁸ These events reassured investors, who kept bank deposits growing until February 2001, even as a succession of crises hit emerging markets. Indeed, the 1997 Asia Crisis and the Russian default of 1998, as well as Brazil’s decision to let the *real* float in January 1999 (the *real* jumped from 1.2:1 to 2:1 *vis-à-vis* the U.S. dollar), were important confidence shocks. Yet, the country accumulated reserves well into 1999.

Argentina had experienced a lapse of relative economic and political stability during the ten-year presidency of Menem. But, by 1999 there were ominous signs—the country entered a recession, with GDP falling by over 3% and prices by almost 2%. The administration was also facing criticism from the left, including accusations of corruption, and from the right (for failing to push for more reforms, particularly more flexibility in the labor market). The 1999 recession also reduced the need for imports, so there was a smaller current account deficit (which amounted U\$12 billion), with over 7.4 billion accounted by Net Income (e.g., debt interest payments). (See **Exhibit 5a**.)

Menem attempted to run for a third term, but it was ruled unconstitutional. A popular candidate was former singer Palito Ortega, who advocated for a “wage for being Argentine,” but was dismissed by pundits as overly populist. Eventually, the Peronists nominated Eduardo Duhalde, who argued against maintaining the Convertibility Plan. In October 1999, he was narrowly defeated by the “*Alianza*,” a coalition led by the Radical Party’s candidate, Fernando de la Rúa, running with the leader of a splinter of the Peronists, Carlos “Chacho” Alvarez, as vice president. They vowed to end corruption and, perhaps more crucially, maintain Convertibility and Menem’s free-market reforms.

De la Rúa assumed the presidency on December 10, 1999, and immediately an improved economic outlook was observed. February 2000 showed growth in manufacturing for the first time in almost two years. Yet, investment banks emphasized that only an improved fiscal outlook would attract capital and translate into a superior growth trajectory. (See **Exhibit 13**.) De la Rúa’s economic team soon claimed that the country’s fiscal situation was worse than anticipated,⁸ justifying a tax increase. Known as the “*Impuestazo*,” the unpopular tax hike killed the (very moderate) recovery and returned the country to a recession. With reduced tax revenues, the government requested assistance from the IMF. Four months later, on May 29, 2000, it announced \$1 billion in spending cuts in an effort to improve the country’s fiscal position. One day later, economists from the IMF arrived as 20,000 citizens took the streets to protest and trade union leaders encouraged acts of “fiscal disobedience.”

“El Chacho” Resigns, “La Alianza” Breaks Down, and the Crisis Looms

A corruption scandal hit the already troubled coalition government later that year. It was alleged that senators were paid bribes in exchange for supporting a government initiative to increase flexibility in the labor market. This law was supposed to reduce unemployment and had been included by the IMF as a “structural benchmark” in the conditionality to the Extended Arrangement Program of February, 1998. Although initially hesitant, Vice President “Chacho” Alvarez eventually took up the case and demanded an explanation from the President. In a startling move, he resigned in October 2000, accusing his own government of corruption.

Country risk remained relatively high, suggesting difficulties when renewing the stock of short-term government debt (see **Exhibit 9**). On December 2000, De la Rúa’s economic minister managed to successfully negotiate with the IMF a \$40 billion loan package (known as the “armor” or, *blindaje*),

⁸ Some argued that the 1999 budget deficit was not large (see Hausmann and Velasco, 2002). An upper bound estimate is 3.8% of GDP—more than triple the deficits seen in 1997 and 1998.

other international financial institutions, and Spain. The average interest rate was 8% (when the rate for new private loans at the time was 14%). The package required further cuts in public spending but it was more than enough to cover the country's external commitments throughout 2001.¹⁹

At first, the markets responded positively. But in early 2001, as consumer confidence and the economy failed to pick up, it became clear the government was not hitting its fiscal targets. The IMF put the government primary surplus at 0.4 of GDP. But several observers noted that this was not particularly bad, in part because it included a deficit from the transition to the new fully funded pension system of 3.7% of GDP. After interest (accrued) the overall deficit was calculated at 4% of GDP.²⁰ The level of public debt was not also particularly high (see **Exhibit 12**). In February 2001, Argentina swapped \$4 billion in bonds that were due to mature soon for longer-term bonds.

Public discontent led to the appointment of Ricardo López Murphy as new economic minister on March 2, 2001. A well respected economist, he proposed a rigorous \$4.5 billion austerity plan for the next two years, including cuts perceived as severe in education spending. Six officials from the increasingly splintered government coalition resigned in protest for the cuts. When De La Rúa's support was unclear, López Murphy himself resigned – after just two weeks on the job.

In March 2001, depositors withdrew \$5.5 billion from Argentina's banking system – the most severe bank run in Argentina's history (see **Exhibit 10c**). The money supply shrunk accordingly. Most capital flight occurred in domestic banks, particularly public banks as these had been lending to the provincial governments (see **Exhibit 10b**).²¹ As the run spread, observers wondered if foreign banks would receive assistance from their headquarters. The provinces intensified the process of issuing "quasi moneys" to cover their bills. One of them, issued by the Province of Buenos Aires, was called the Patacón (the name of an earlier Argentine currency). See **Exhibit 14** for several examples.

Despite criticism from his own cabinet, De la Rúa appointed Domingo Cavallo, architect of the 1991 Convertibility Plan, as economic minister. Aware of his predecessors' failures to reduce spending and increase tax revenues, Cavallo focused instead on promoting economic growth. With support from the business community, he first passed a law to promote competitiveness and a small tax on all checks. It was seen as distortive by several economists but was eventually extremely well received given its effectiveness in quickly raising a significant amount of revenue.

But with the economy still not growing, markets remained skeptical and difficulties financing the relatively small public deficit and the maturing debt remained. As confidence declined, rating agencies downgraded Argentina. Over-indebted business groups also suffered. It was reported that *Clarín*, the nation's largest newspaper, had \$400 million in debts.²²

In April 2001, Cavallo sent a bill to Congress that would tie the peso to an average of the euro and dollar once the euro appreciated to parity with the dollar. Although this measure was an attempt to align the peso with Argentina's trading patterns, markets interpreted it as a threat to the foundation of Argentina's Convertibility Law. To make matters worse, the President of the Central Bank, Pedro Pou, came under investigation for his alleged participation in a money-laundering scheme. A congressional committee was put together to study the charges levied against Pou. Even as evidence of his involvement was not forthcoming, he resigned citing pressure from Cavallo to improve banking sector liquidity through reducing reserve requirements. Bank deposits again fell.

Shortly after, with interest and principal payments still looming, Cavallo began planning a voluntary debt swap – dubbed the *Megacanje*. In early June 2001, Argentina successfully swapped almost \$30 billion of debt. Though the rates paid to borrow at longer maturities were high (around 15% per year), the swap deferred debt-service costs of around \$8 billion through 2002 and a total of \$16 billion through 2005. Investors welcomed the program and bond spreads dropped somewhat, dismissing accusations against Cavallo and members of his team of bribe-taking in the *Megacanje*.

(judicial investigations could not proceed while they were in office). During this period Cavallo was untiring in his attempts to rally support for the program. When reluctant investors asked him for a reason, he apparently replied, “Because I am a legend.”²³ As some breathing room was gained, Cavallo predicted a full return of confidence.

But by July 2001, amidst a shrinking economy and with the IMF complaining about missed fiscal targets and unfulfilled reforms, the government finally accepted it could not finance the deficit. As a result, a “zero-deficit” policy was introduced with drastic, across the board measures: pensions and public-sector salaries were reduced by up to 13%. While the “zero deficit” plan becomes law, the press quotes “market sources” as skeptical and that an IMF package will only delay the default. Spreads climbed to 1,600 basis points by late July (from just under 1,000 in early June).²⁴

In August, some breathing room was gained through an \$8 billion increase in the standby loan agreement with the IMF (see **Exhibit 10a** for IMF disbursements and repayments). In November, Cavallo attempted to execute another debt swap. In contrast to the *Megacanje*, the swap was not well received. Instead, capital flight escalated and country risk climbed to 1,700 basis points (see **Exhibit 9**). After hitting a high at US\$35 billion in January 2001, international reserves at the Central Bank by the end of the year stood at US\$15.2 billion, a dramatic reversal of fortune (see **Exhibit 11**).

Banks were hit with another wave of withdrawals as interest rates rose sharply. Worried by the disorder introduced by the “quasi-moneys” (bonds issued by provinces under varying conditions), the federal government introduced in October a bond –the LECOP²⁵–that would be sent to the provinces and exchanged for the provincial bonds. The emission of LECOPs, however, was insufficient to retire the existing bonds and the provinces’ needs for new funds, so soon the LECOP coexisted with the provincial bonds, as well as the peso (and the dollar, which had been legal tender since the launch of the Convertibility Law).

Figure E Bank Deposits and International Reserves, (in billions of \$ and US\$ respectively)²⁶

January 3, 2000–December 31, 2001
(In billions of pesos)



Source: Bloomberg.

January 3, 2000–December 31, 2001
(In billions of U.S. dollars)



Sources: Bloomberg; and IMF database.

Barter clubs, quasi-moneys, and the shrinking currency It was around this time that barter clubs (*clubes de trueque*) flourished. *The New York Times* reported on the phenomenon in May 2001, featuring Pedro Pérez and other workers who, paid with goods instead of cash, exchanged them for *creditos* at barter clubs in the hope that these could eventually be exchanged for something useful. *The New York Times* article continued:

Today, as Argentina muddles through a recession with no end in sight, more than 450 clubs have been founded in 20 of the country's 24 provinces..... In the last few months, Argentine public officials themselves have begun to use the barter system to improve local economies and to serve their own needs. Five impoverished municipalities have decided to accept services from barter club members to fix leaking school roofs or streetlights in lieu of taxes.²⁷

Problems soon escalated into a full-blown crisis. Unable to face further withdrawals by nervous depositors, banks became the focus of attention. On December 1, 2001 a set of capital controls known as the "*corralito*" (little fence) were instituted in order to stem the outflow of bank deposits. It limited monthly withdrawals of cash from checking and savings accounts to \$1,000 (this was based on research showing that, in normal times, 99% of Argentines cashed less than that amount per month). It also limited foreign-money transactions to operations related to exports and imports. While some flexibility existed (it did not restrict the use of credit/debit cards, checks, and bank transfers within Argentina), depositors were furious and demonstrations gathered in front of banks, shouting "*chorros, chorros, devuelvan los ahorros*"^h. Political resistance gathered momentum under the slogan "*Que se vayan todos*" (Spanish for "all should go").

On December 5, 2001 the IMF announced that it would suspend disbursement of funds since the country had failed to achieve the (relatively small) adjustment necessary. On December 17, the government presented a new budget with spending cuts of nearly 20%. The public reacted with rage, marching to the Plaza de Mayo, in front of the Pink House (the presidential headquarters). Looting and violence, particularly against banks, filled the streets. At least 22 people died amid the furor.

De la Rúa resigned on December 21, 2001.

Congress voted Adolfo Rodríguez Saá into office as interim president on Sunday, December 23, 2001. Saá had several immediate concerns. One was the lack of cash. He announced the creation of a new currency, the *Argentino*, which was not going to be backed by dollar reserves, but by the real estate properties of the nation.²⁸ It would float alongside the peso and U.S. dollar.

On that same Sunday, Saá also announced Argentina would default on its national debt—an announcement met with cheers in congress—although more than half of the debt was held by Argentines themselves.²⁹ He also announced that there would be no devaluation. This was consistent with popular demands: four days later, on Thursday, December 27, 2001, a poll carried out in the greater Buenos Aires area revealed that 84% of respondents were against the devaluation (and 71% in favor of the Convertibility Plan).³⁰

But the *Argentino* was never implemented and Saá stepped down on December 30, 2001, amid popular protests and power plays within the Peronist Party leadership. It was Duhalde's turn. The loser of the 1999 presidential race to De la Rúa had remained one of the country's most powerful politicians as governor of Buenos Aires Province. On January 3, 2002, one day after Duhalde's appointment as president, Argentina formally defaulted on its debt when it missed a payment of \$28 million on a lira-denominated bond. Duhalde announced, "He who deposited dollars will receive dollars". He then "pesoified" all dollar deposits (at a 1.4 pesos per dollar) and bank loans (at 1 peso per dollar). Banks were technically bankrupt and depositors, with the exchange rate floating close to 4 pesos per dollar, were furious. In his inaugural speech, Duhalde explained,

"Argentina is broken. Argentina is bankrupt. In its agony, this model took everything with it. ...Today, production and commerce are, as you know, at a complete

^h Spanish for "Thieves, thieves, return our savings."

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stop; the payments chain is broken and there is no currency that can put the country back to work.”

Exhibit 1 Map of Argentina



Source: Courtesy of the University of Texas Libraries, The University of Texas at Austin, Perry Castañeda Library Map Collection, <http://www.lib.utexas.edu/maps/>, accessed May 2013.

Exhibit 2 Selected Macroeconomic Indicators, 1965 to 2002 (selected years)

Concept	1965	1970	1975	1980	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Total population (millions)	22.3	24.0	26.1	28.1	29.4	29.9	30.4	30.8	31.3	31.7	32.2	32.6	33.1	33.5	34.0	34.4	34.9	35.3	35.7	36.1	36.5	36.9	37.3	37.7
GDP (constant 2000 US\$ billions)	131	159	185	212	198	202	187	201	207	202	187	182	205	230	243	258	250	264	286	297	286	284	272	242
GDP per capita (const. 2000 US\$)	5,856	6,611	7,082	7,541	6,707	6,752	6,146	6,532	6,623	6,361	5,800	5,582	6,203	6,852	7,162	7,484	7,180	7,484	7,994	8,205	7,840	7,696	7,283	6,428
Agriculture, value added (% GDP) ^a	12.9	9.6	6.6	6.4	8.7	8.3	7.6	7.8	8.1	9.0	9.6	8.1	6.7	6.0	5.5	5.4	5.7	6.0	5.6	5.6	4.7	5.0	4.8	10.7
Industry, value added (% GDP)	48.4	42.3	50.1	41.2	41.6	39.7	39.3	37.4	37.8	38.5	42.3	36.0	32.7	30.7	29.2	28.6	28.0	28.4	29.1	28.6	27.8	27.6	26.6	32.0
Services, etc., value added (% GDP)	38.7	48.1	43.3	52.4	49.8	51.9	53.1	54.8	54.1	52.5	48.0	55.9	60.6	63.3	65.3	65.9	66.3	65.6	65.3	65.8	67.4	67.4	68.6	57.3
Exports of goods+services (% GDP)	6.2	5.6	5.8	5.1	9.2	7.6	11.7	8.2	7.9	9.5	13.1	10.4	7.7	6.6	6.9	7.5	9.6	10.4	10.5	10.4	9.8	10.9	11.5	27.7
Imports of goods+services (% GDP)	4.2	4.7	6.0	6.5	5.8	4.8	6.3	6.3	7.6	6.2	6.6	4.6	6.1	8.1	9.3	10.6	10.1	11.1	12.8	12.9	11.5	11.5	10.2	12.8
Poverty headcount (\$2/day, PPP, %) ^b	..	..	..	..	..	..	..	0	0	..	..	..	3	4	4	4	7	8	7	8	9	11	15	23
Unemployment rate (%) ^c	..	..	..	..	..	3.8	5.3	4.4	5.3	5.9	7.3	9.2	6.0	7.0	9.0	12.0	16.0	16.6	13.4	12.1	13.5	14.7	18.1	17.5
GINI index (0-100) ^d	..	..	..	..	..	..	..	43	45	..	..	..	47	45	45	46	49	50	49	51	50	51	53	54
Life expectancy at birth (years)	66	67	68	69	70	70	71	71	71	71	71	71	72	72	72	72	73	73	73	73	74	74	74	74
Consumer prices (p.a. % change)	29	14	183	101	344	627	672	90	131	343	3,080	2,314	172	25	11	4	3	0	1	1	-1	-1	-1	26
Official FX rate (ARS per USD, a.a.) ^e	..	..	..	..	..	..	..	..	..	..	..	..	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	3.1
Foreign currency reserves (US\$ billions) ^f	0.3	0.7	0.6	7.3	3.2	3.5	6.0	4.3	3.0	5.0	3.4	6.2	9.1	12.5	17.2	17.8	17.3	23.3	29.8	31.7	33.1	34.2	15.2	10.5

Source: International Financial Statistics (IFS) via the IMF eLibrary and World dataBank, World Development Indicators (WDI) & Global Development Finance, accessed December 2013.

Note: Current (or nominal) figures are presented in the value of the U.S. dollar for that particular year while constant (or real) figures present the data in reference to the value of the U.S. dollar for the base year (2000). (For GDP growth, see **Exhibit 3**, below.)

^a Per the WDI, value added is the net output of the sector (agriculture, industry, services, etc.) after adding up all outputs and subtracting intermediate inputs. It is calculated without making deductions for depreciation of fabricated assets or depletion and degradation of natural resources.

^b Per the WDI, this is the percentage of the population living on less than \$2.00 a day at 2005 international prices. Not all years have data available.

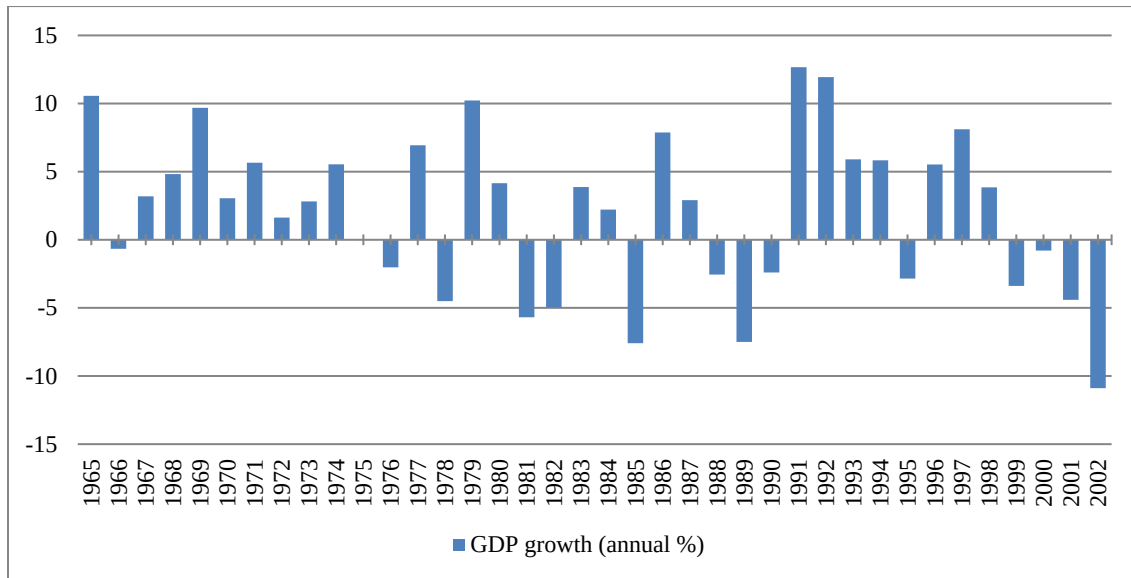
^c This series began in 1984, as reported by WDI. (See graph depiction in **Exhibit 8**, below.)

^d The GINI index measures the extent to which the distribution of income within an economy deviates from equal distribution, with 0 representing perfect equality and 100 perfect inequality.

^e The convertible Argentine peso (ARS) was introduced in 1991 (a.a. = annual average).

^f Foreign currency reserve totals at the end of the year indicated. (See graph depiction in **Exhibit 11**, below.)

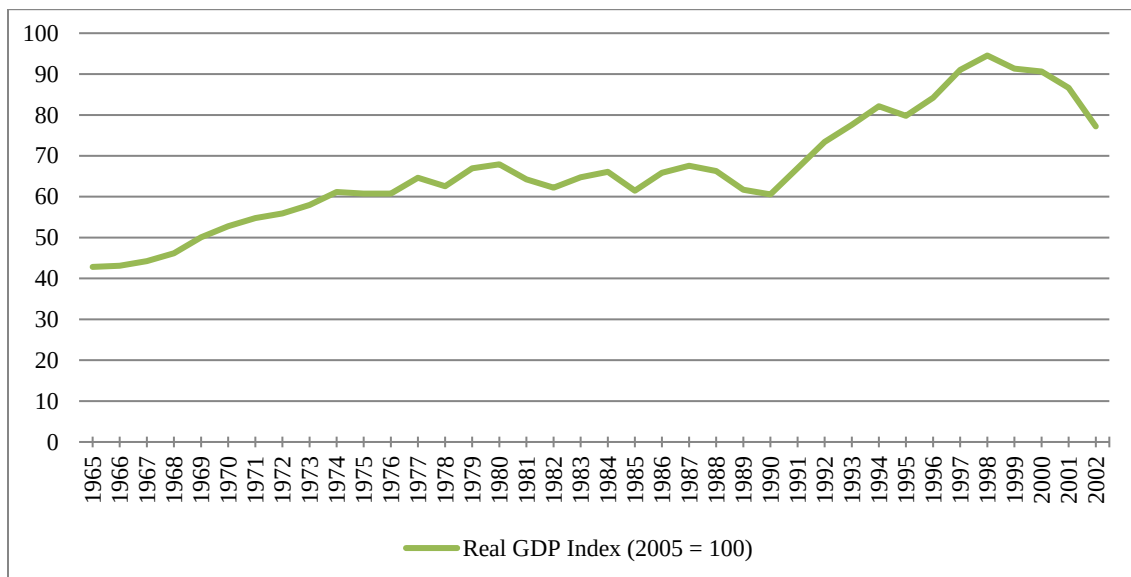
Exhibit 3a Real GDP Annual Growth (%) in Argentina, 1965 to 2002



Source: International Monetary Fund (IMF), International Financial Statistics (IFS) database, based on INDEC's quarterly bulletin of statistics, accessed December 2013.

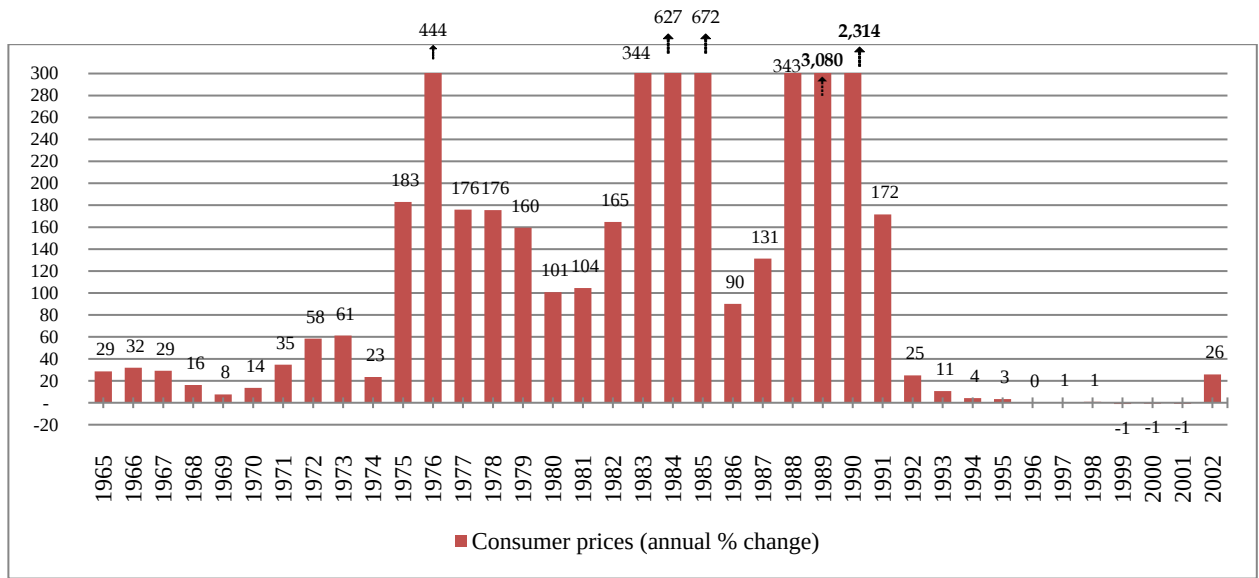
Note: Real GDP measured in Argentine pesos at 1986 prices.

Exhibit 3b Real GDP Index, 1965 to 2002 (2005 = 100)



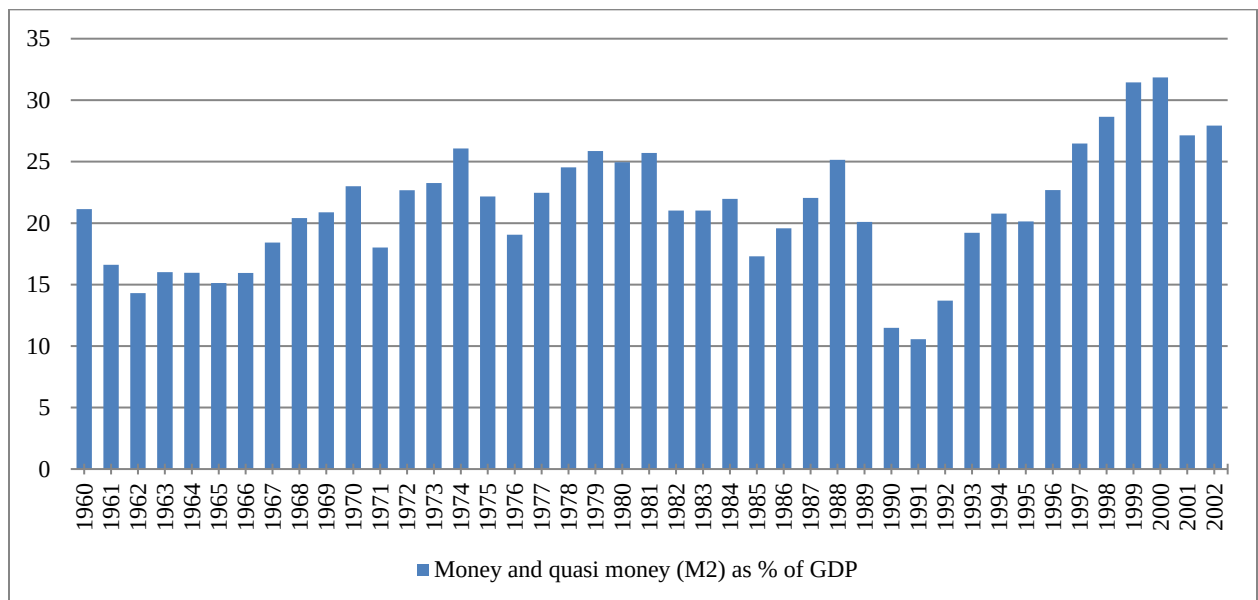
Source: IMF's IFS data, based on INDEC's quarterly bulletin of statistics, accessed December 2013.

Exhibit 4a Argentina's Annual Inflation (annual % change), 1965–2002



Source: IMF's IFC statistics, from INDEC, accessed December 2013.

Exhibit 4b M2 as a Share (%) of GDP, 1960–2002



Source: World dataBank, World Development Indicators, accessed December 2013.

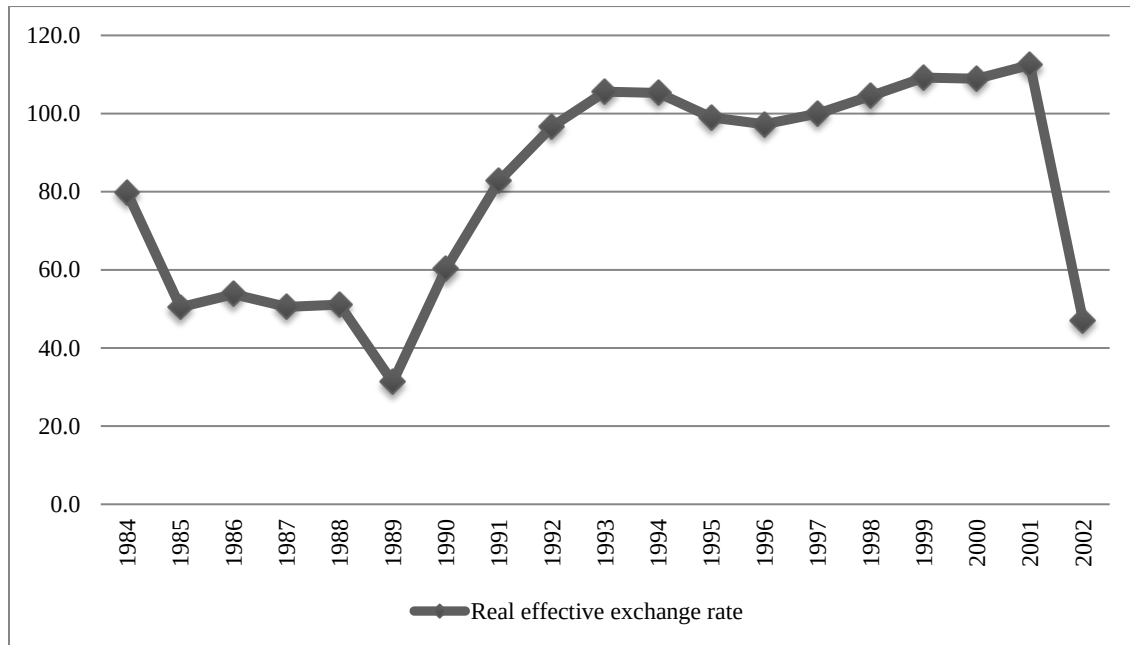
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Exhibit 5a Argentine Balance of Payments (millions current U.S. dollars), 1988 to 2002

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Current Account	-1,572	-1,305	4,552	-647	-5,548	-8,206	-10,979	-5,118	-6,770	-12,138	-14,482	-11,943	-8,981	-3,780	8,767
Trade Balance	4,242	5,709	8,628	4,419	-1,396	-2,364	-4,139	2,357	1,760	-2,123	-3,097	-795	2,452	7,385	17,178
Exports	9,134	9,573	12,354	11,978	12,399	13,269	16,023	21,162	24,043	26,431	26,434	23,309	26,341	26,543	25,651
Imports	4,892	3,864	3,726	7,559	13,795	15,633	20,162	18,804	22,283	28,554	29,531	24,103	23,889	19,158	8,473
Net Services	-687	-600	-674	-1,599	-2,557	-3,326	-3,779	-3,436	-3,547	-4,385	-4,444	-4,111	-4,284	-3,863	-1,460
Net Income	-5,127	-6,422	-4,400	-4,260	-2,384	-3,069	-3,559	-4,636	-5,465	-6,145	-7,405	-7,490	-7,548	-7,727	-7,491
Net Transfers		8	998	793	789	552	497	597	482	515	464	453	399	424	540
Capital Acct					16	16	18	14	51	66	73	149	106	157	406
Financial Acct	1,737	1,554	-5,267	988	5,686	9,898	13,075	7,777	8,324	14,344	14,846	12,435	9,029	6,434	-7,283
Net Direct Investment	1,147	1,028	1,836	2,439	3,265	2,088	2,622	4,112	5,348	5,507	4,965	22,257	9,517	2,005	2,776
Net Portfolio Investment	-656	2,618	-1,309	483	4,860	34,402	9,461	2,313	9,594	11,024	8,788	-6,785	-2,584	-9,503	-4,640
Net Other Investment	3,134	-3,918	-2,672	106	824	-22,313	1,676	1,269	-2,743	1,105	4,529	-1,851	1,692	1,862	-9,945
Net Reserve Assets	-1,888	1,826	-3,121	-2,040	-3,264	-4,279	-685	82	-3,875	-3,293	-3,436	-1,186	403	12,070	4,526
Net Errors + Omissions	-165	-249	715	-341	-154	-1,708	-2,113	-2,674	-1,605	-2,272	-437	-642	-154	-2,810	-1,890

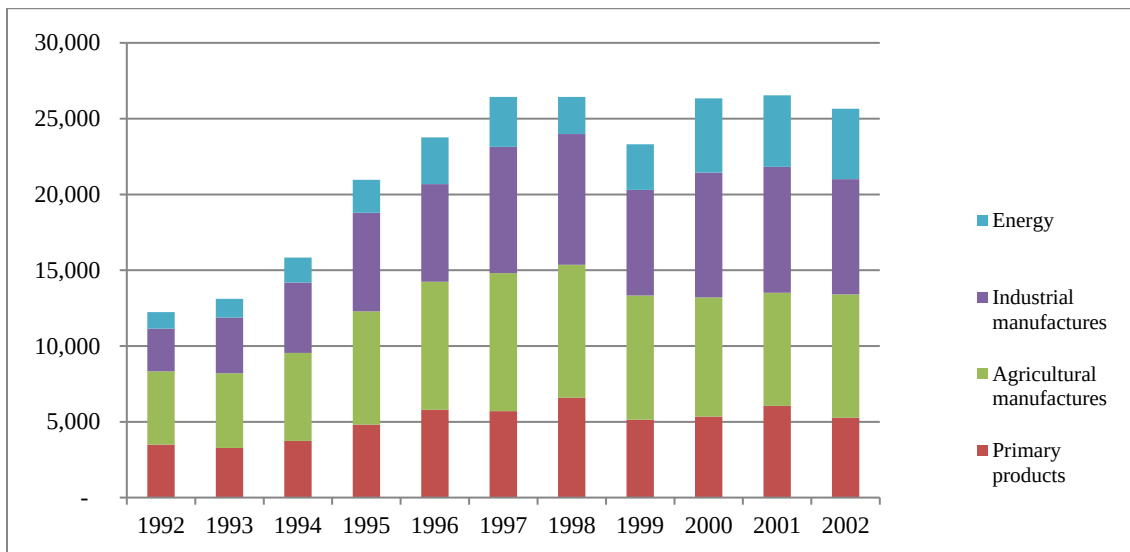
Source: IMF eLibrary data, accessed June 2013. Data presented in accordance with the IMF's Balance of Payments Manual, 5th edition (BPM5).

Exhibit 5b Index of Real Effective Exchange Rate for Argentina, 1984 to 2002 (1997 = 100)



Source: The Economist (EIU) database, accessed December, 2013. © Reproduced by permission of The Economist Intelligence Unit. The REER is a trade-weighted basket of currencies (U.S. dollar, euro, yen, etc.) converted to an index (1997=100) and adjusted for relative price movements (starting 1984).

Exhibit 5c Export Components from the Balance of Payments (in millions of US\$)



Source: INDEC via the Ministry of the Economy and Public Finance, <http://www.mecon.gov.ar/peconomica/basehome/infoeco.html>, accessed December 2013.

Exhibit 6 National Income Accounts as a Share (%) of GDP, 1965 to 2002 (selected years)

As a % of GDP	1965	1970	1975	1980	1983	1985	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Priv. Final Consumption	67.4	65.0	58.1				75.4	73.7	73.5	77.1	80.4	81.9	69.8	70.0	69.1	70.1	70.8	70.1	70.0	70.7	70.3	60.9
Pub. Final Consumption	8.1	9.7	12.6				4.7	4.3	4.5	3.1	3.3	3.0	13.5	13.2	13.3	12.5	12.1	12.5	13.7	13.8	14.2	12.2
Gross Fixed Capitl Form	19.2	24.4	29.4	25.3	20.9	17.6	19.6	18.6	15.5	14.0	14.6	16.7	19.1	19.9	17.9	18.1	19.4	19.9	18.0	16.2	14.2	12.0
Exports of Gds+Svces	6.2	5.6	5.8	5.1	5.8	6.3	7.6	6.2	6.6	4.6	6.1	8.1	9.3	7.5	10.1	11.1	10.5	12.9	9.8	10.9	11.5	27.7
Imports of Gds+Svces	4.2	4.7	6.0	6.5	9.2	11.7	7.9	9.5	13.1	10.4	7.7	6.6	6.9	10.6	9.6	10.4	12.8	10.4	11.5	11.5	10.2	12.8

Source: IFS eLibrary, International Financial Statistics, accessed December 2013.

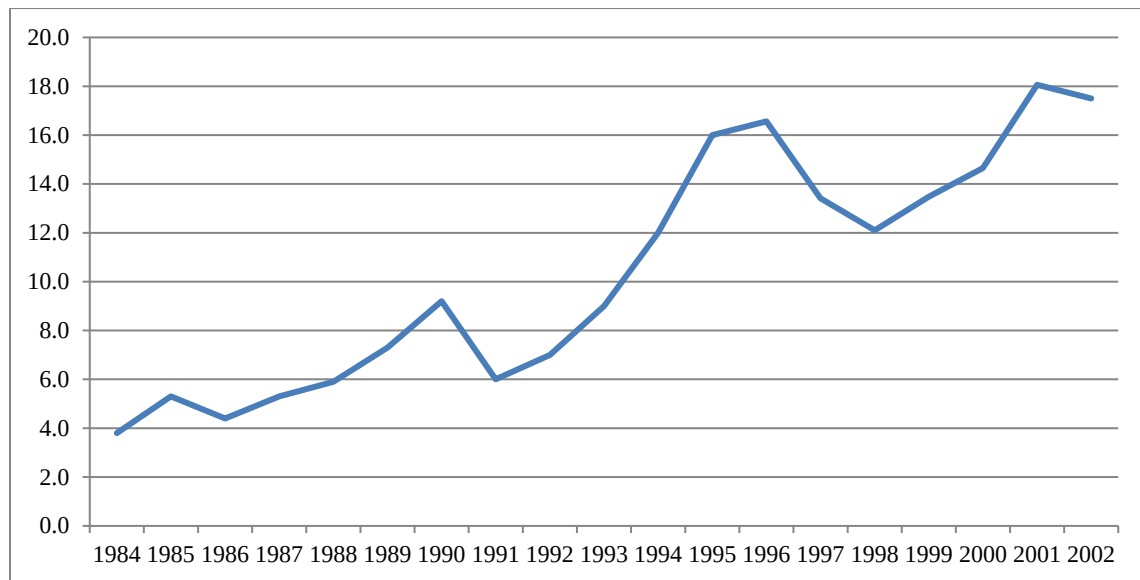
Exhibit 7 Budgetary Indicators as a Share (%) of GDP, 1993 to 2002

% of GDP	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Budget expenditure	18	19	20	19	20	20	22	22	22	19
Budget revenue	19	19	19	17	19	19	20	20	19	18
Budget balance	1.2	0.0	-0.5	-2.0	-1.5	-1.4	-1.7	-2.4	-3.2	-1.5
Of which										
Debt interest payments	1.2	1.2	1.6	1.7	2.0	2.2	2.9	3.4	3.8	2.2
Primary balance ^a	2.4	1.2	1.1	-0.3	0.5	0.9	1.2	1.0	0.5	0.7
Public debt	29	31	34	36	35	38	43	45	54	146

Source: Economist Intelligence Unit (EIU) using data from Argentina's Ministry of the Economy (Mecon) and the IMF's IFS database, accessed December 2013. © Reproduced by permission of The Economist Intelligence Unit.

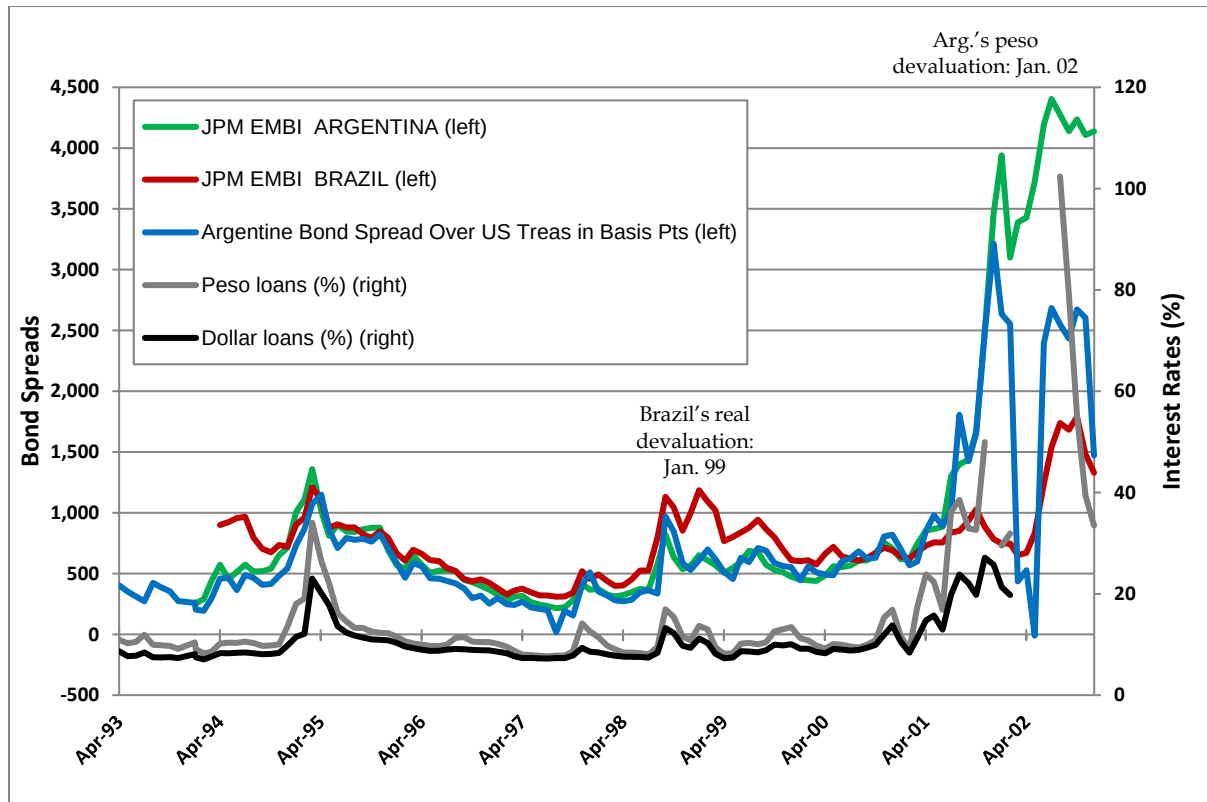
^a Primary balance represents revenues minus expenditures before debt interest payments.

Exhibit 8 Annual Unemployment Rates, 1984-2002



Source: IMF's IFS data, from INDEC's *Encuesta Permanente de Hogares*, accessed December 2013. Data series begins 1984.

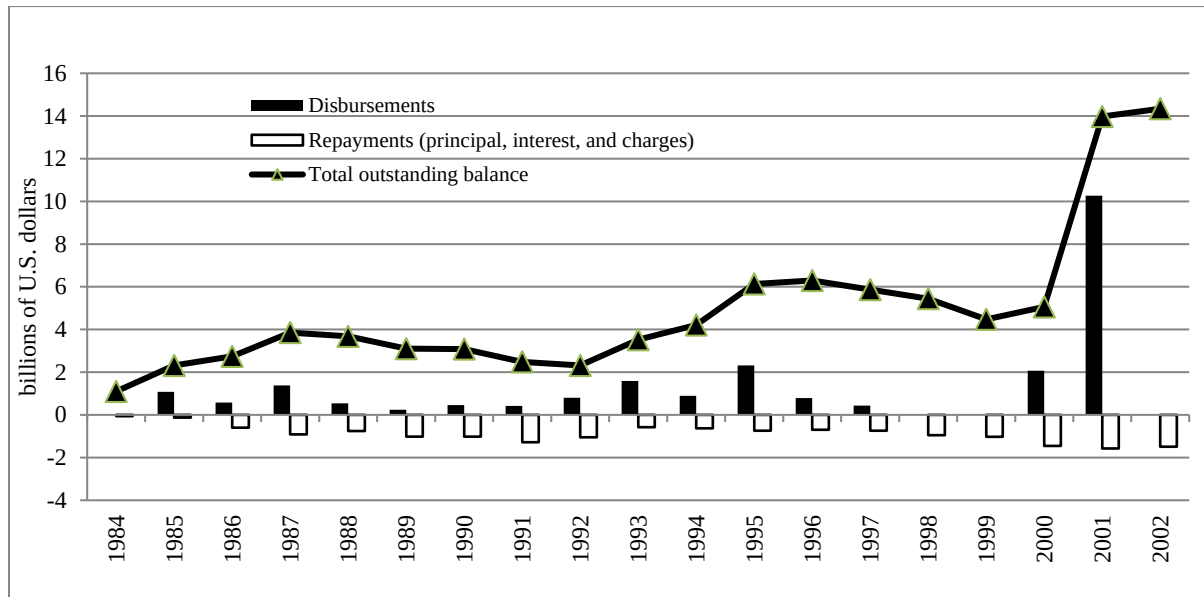
Exhibit 9 J.P. Morgan Emerging Market Bond Indices (EMBI) and Interest Rates



Source: Thomson Datastream for EMBI data, accessed December 2012, and Argentine bond over US treasuries spread data, accessed June 2013. Argentina's central bank (BCRA) for interest rates data.

Notes: Data for the JP Morgan EMBI Global Argentina blended spread begins Dec. 31, 1993. Data for the JP Morgan EMBI Global Brazil blended spread begins April 29, 1994. The Argentine bond spread over US Treasuries uses Barclay's bond data, accessed via Thomson Datastream. The interest rates from the BCRA were for 30-day loans (in pesos and in dollars, as indicated) to prime companies. Note that there were gaps in the interest rate data when loans were not available.

Exhibit 10a Financial Transactions between Argentina and the IMF, 1984 to 2002

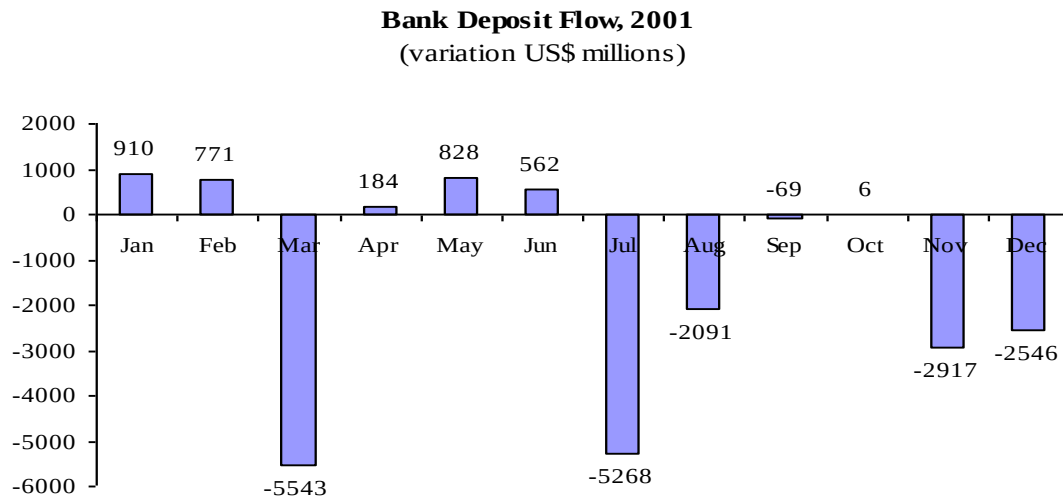


Source: Casewriter and Ingrid Vogel, based on data from IMF, International Fund Statistics CD-ROM, July 2003.

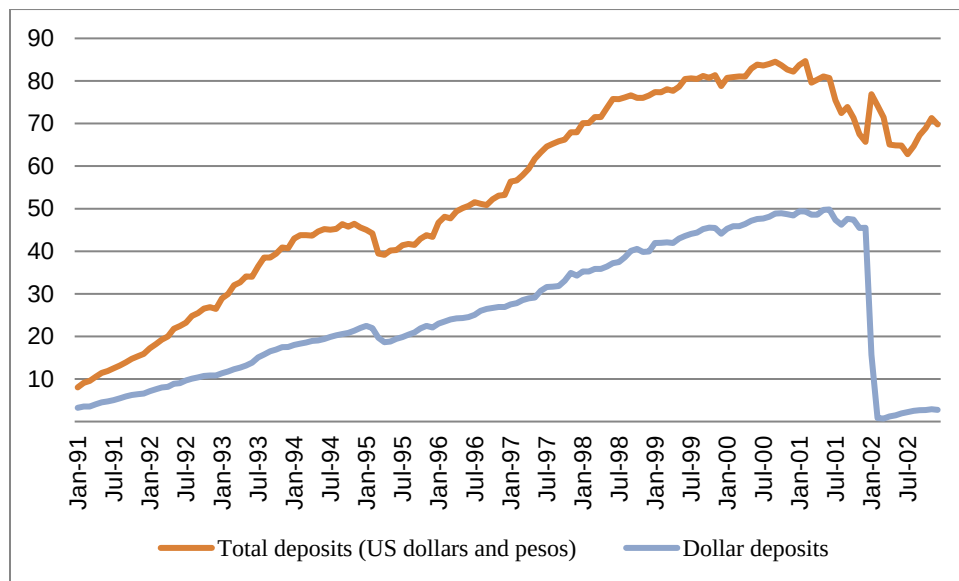
Exhibit 10b Deposit Flight by Type of Bank

	2001 Crisis			1995 Tequila Crisis		
	Deposit outflows (millions)	Deposit outflows (as % total deposits)	Outflows as % Total Outflows	Deposit outflows (millions)	Deposit outflows (as % total deposits)	Outflows as % Total Outflows
National private	-5,665	-40%	29%	-3,415	-21%	52%
Foreign	-5,085	-17%	26%	111	1%	-2%
National public	-2,430	-18%	13%	-216	-3%	3%
Provincial public	-4,084	-31%	21%	-937	-8%	14%
Others	-2,171	-19%	11%	-2,075	-38%	32%
Total	-19,434	-23%	100%	-6,532	-14%	100%

Source: Casewriter and Ingrid Vogel, based on data from Banco Central de la Republica de Argentina (BCRA).

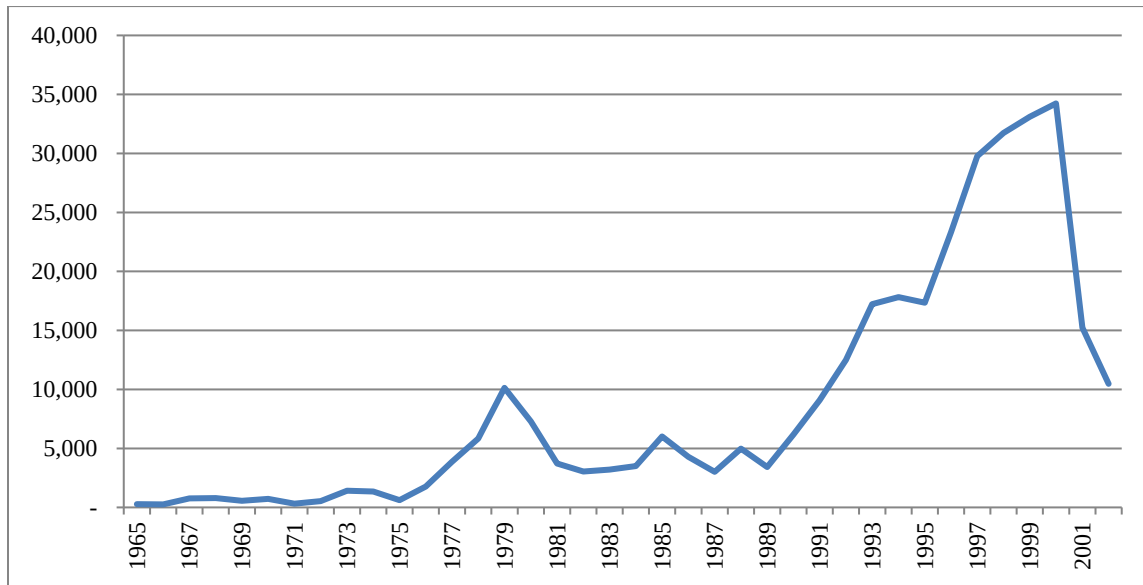
Exhibit 10c Argentina's Bank Deposit Flow during the crisis of 2001

Source: Banco Central de la Republica de Argentina (BCRA).

Exhibit 10d Total Deposits vs Deposits in U.S. Dollars, 1991 to 2002 (in millions of currency units)

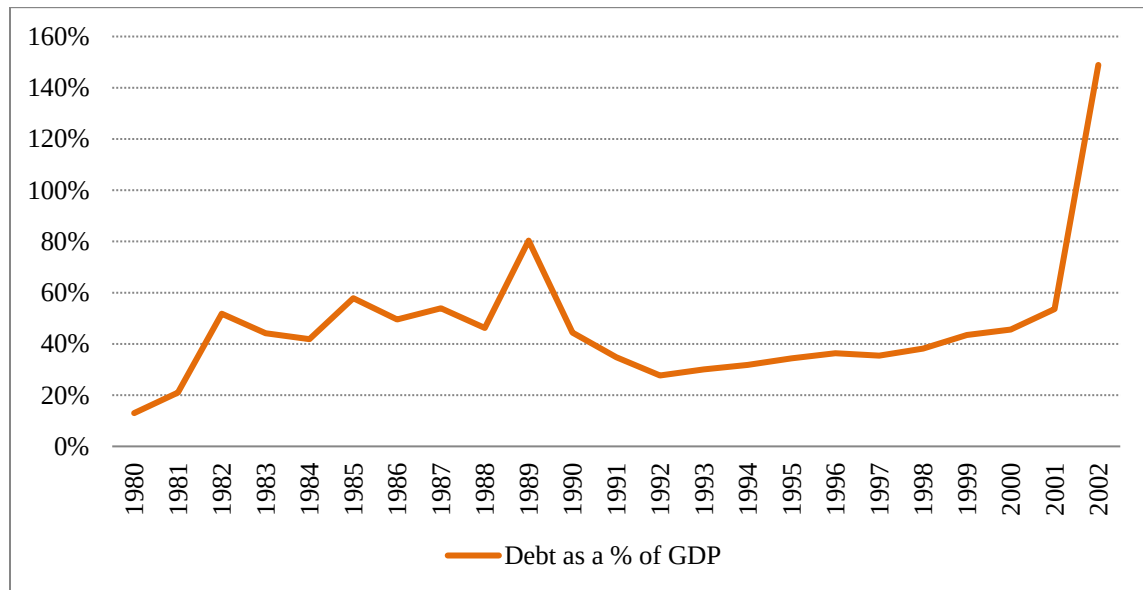
Source: Central Bank of Argentina (BCRA), <http://www.bcra.gov.ar/>, accessed December 2013.

Exhibit 11 Central Bank International Reserves, 1965 to 2002 (in millions of US\$)



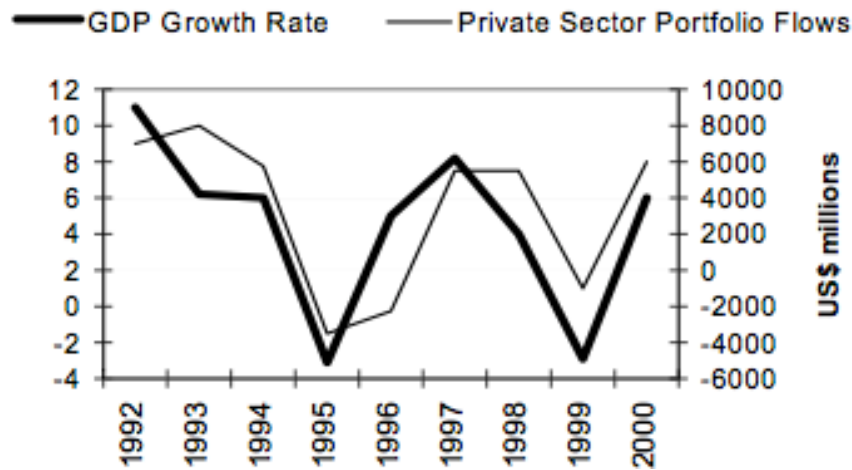
Source: Year-end international reserves data from the Central Bank of the Republic of Argentina (BCRA).

Exhibit 12 Debt as a % of GDP, 1980 to 2002



Sources: Compiled by CIPPEC (Centro de Implementación de Políticas Públicas para la Equidad y el Crecimiento), with debt data from Argentina's Ministry of Economy and Finance (MECON), *Boletín Fiscal*, and GDP data from the World Economic Outlook-Database-September 2011.

Exhibit 13 Private Capital Flows and GDP Growth



Source: Alberto Ades and Marcos Buscaglia "Argentina: In Transition," *Goldman Sachs Global Economic Papers* No. 23, (1999).

Exhibit 14 2-peso bearer bond issued by the Province of Mendoza followed by one issued by the Province of Cordoba. Next page, Argentine 2-peso bearer bond issued by the Argentine Treasury, 2-peso bearer bond issued by the Province of Buenos Aires (2 series).



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Exhibit 14 (continued)



Source: Casewriter.

Endnotes

¹ Letter cited from Sebastian Edwards, *Left Behind: Latin America and the False Promise of Populism*, (Chicago: The University of Chicago Press, 2012), p 168.

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³ Quotation from Clifford Krauss, “To Weather Recession, Argentines Revert to Barter,” *The New York Times*, May 6, 2001, online at <http://www.nytimes.com/2001/05/06/world/06ARGE.html>, accessed May 2013.

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⁵ The following paragraphs draw from: Rafael Di Tella, “Menem and the Populist Tradition in Argentina,” HBS Case No. 700-061 (Boston: Harvard Business School Publishing, 2000).

⁶ See Rafael Di Tella and Juan Dubra, “Peronist Beliefs and Interventionist Policies: The Diaz Alejandro Hypothesis with Rational Voters,” chapter 7 in Rafael Di Tella and Edward Glaeser (editors) *Argentine Exceptionalism*, forthcoming 2013.

⁷ Stang, Silvia, “La esquivá meta del fifty fifty: mitos y verdades de la distribución del ingreso,” *La Nación*, January 27, 2013, online at <http://www.lanacion.com.ar/1549178-la-esquivá-meta-del-fifty-fifty-mitos-y-verdades-de-la-distribucion-del-ingreso>, accessed January 2013. The article cited the FIDE foundation for 1974 data.

⁸ Rafael Di Tella, “Menem and the Populist Tradition in Argentina,” HBS Case No. 700-061 (Boston: Harvard Business School Publishing, 2000), p. 6, citing Smith, William C., Acuna, Carlos H. and Gamarra, Eduardo A., eds., *Democracy, Markets, and Structural Reform in Latin America* (Coral Gables: North-South Center Press, 1993).

⁹ Pablo Gerchunoff and Lucas Llach, *El Ciclo de la Ilusión y el Desencanto: Un Siglo de Políticas Económicas Argentinas*, (Buenos Aires: Emecé, 2010), p. 366.

¹⁰ Laura Tedesco, *Democracy in Argentina: Hope and Disillusion* (London: Routledge, 1999), p. 64.

¹¹ Santiago O'Donnell, “The Longest-Running Soap Opera in the Americas: While the Argentine President Flirts with Actresses, Races Boats and Fights with His Estranged Wife in Public, His Once-Rich Nation Falls Deeper into Despair,” *The Los Angeles Times*, August 18, 1991, online at http://articles.latimes.com/1991-08-18/magazine/tm-1572_1_carlos-menem/3, accessed January 2012. Also: Rafael Di Tella, “Menem and the Populist Tradition in Argentina,” HBS Case No. 700-061 (Boston: Harvard Business School Publishing, 2000), p. 7.

¹² IMF data via François R. Velde and Marcelo Veracierto, (2010). “Dollarization of Argentina,” *Economic Perspectives*, Federal Reserve Bank of Chicago, Spring, p. 29. Casewriter added “Bonex plan” indicator.

¹³ The following paragraphs draw from: Rafael Di Tella and Ingrid Vogel, “Argentina’s Convertibility Plan,” HBS Case No. 702-002 (Boston: Harvard Business School Publishing, 2001), and Rafael Di Tella and Ingrid Vogel, “The 2001 Crisis in Argentina: An IMF-Sponsored Default? (A),” HBS Case No. 704-004 (Boston: Harvard Business School Publishing, 2003).

¹⁴ Alberto Ades, “Argentina: In Transition,” *Global Economics Paper*, no. 22 (New York: Goldman, Sachs & Co., 29 July 1999), 3.

¹⁵ “In Their Own Words,” interview with Domingo Cavallo, *Latin Finance*, July 1998, 100.

¹⁶ Rafael Di Tella and Ingrid Vogel, “Argentina’s Convertibility Plan,” HBS Case No. 702-002 (Boston: Harvard Business School Publishing, 2001), p. 1.

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¹⁸ The IMF and Argentina, 1991-2001. Evaluation Report 2004.

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³⁰ *La Nacion*, December 30, 2001.