

CRS Report for Congress

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The Argentine Financial Crisis: A Chronology of Events

J. F. Hornbeck

Specialist in International Trade and Finance
Foreign Affairs, Defense, and Trade Division

Summary

Argentina's current crisis resulted from a confluence of events, some external to Argentina's policy process, others directly related to its political and economic choices. Although it is not easy to discern at what specific point in time Argentina's economic situation turned into a crisis, it is clear that by early 2001, political, economic and social events had taken a significant turn for the worse. The following is a summary of these events from before Argentina's adoption of the currency board in 1991 to developments in early 2002. This report will be updated periodically.

Chronology of Events¹

- 1980s Argentina suffers through an extended period of economic instability including the Latin American debt crisis and hyperinflation.
- 1989 Peronist candidate Carlos Menem is elected President of Argentina and appoints Domingo Cavallo as Minister of Economy. Together they enact a major structural adjustment program including tax reform, privatization, trade liberalization, deregulation, and adoption of a currency board.
- April 1, 1991 Argentina's Congress enacts the Convertibility Law, which legally adopts the currency board guaranteeing the convertibility of peso currency to dollars at a one-to-one fixed rate and limiting the printing of pesos only to an amount necessary to purchase dollars in the foreign exchange market. Effectively, each peso in circulation is backed by a U.S. dollar and monetary policy is forcibly constrained to uphold that promise.

¹ The events compiled here are drawn from standard news sources and from documents on the web page of the International Monetary Fund (IMF) at: [<http://www.imf.org/>].

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- 1991-94 Argentina enjoys strong economic growth and the currency board is considered highly successful.
- 1995 Following Mexico's December 1994 peso devaluation, capital flows out of emerging markets. Argentina's GDP declines by 2.8%.
- May 1995 President Menem is reelected President after convincing Congress to change electoral laws that prohibit a second term.
- 1995-1999 The U.S. dollar experiences a prolonged period of real appreciation, resulting in similar appreciation of the Argentine peso relative to its trading partners.
- 1996-1997 Renewed period of Argentine economic growth (5.5% in 1996, 8.1% in 1997), but current account deficit and debt measures worsen.
- July 1997 East Asian financial crisis begins.
- 1998 Financial crisis moves to Russia and then Brazil. Argentina enters prolonged recession in third quarter (still in effect) and unemployment begins to rise.

1999

- January Brazil, facing its own financial crisis, devalues its currency, hurting Argentine exports, 30% of which were traded with Brazil.
- September The Argentine Congress passes the Fiscal Responsibility Law, committing to large reductions in both federal and provincial government spending.
- October 24 Fernando de la Rúa of the Radical Civic Union (UCR), the opposition coalition candidate, running on a platform to end corruption (under Menem) and the recession, defeats Peronist candidate Eduardo Duhalde for President.
- December 10 De la Rúa is inaugurated President of Argentina and shortly thereafter seeks assistance from the IMF.

2000

- March 10 The IMF agrees to three-year \$7.2 billion stand-by arrangement with Argentina conditioned on a strict fiscal adjustment and the assumption of 3.5% GDP growth in 2000 (actual growth was 0.5%).
- May 29 The government announces \$1 billion in budget cuts in hopes that fiscal responsibility will bring renewed confidence to economy.

- September 15 The IMF concludes an Article IV Consultation, the required annual comprehensive review of member country economies.
- October 6 Vice President Carlos Alvarez resigns over de la Rúa's decision not to replace two cabinet members linked to a recent Senate bribery scandal.
- December 18 The de la Rúa government announces a \$40 billion multilateral assistance package organized by IMF (see below).

2001

- January 12 Argentina's continued poor economic performance prompts the IMF to augment the March 10, 2000 agreement by \$7.0 billion as part of a \$40 billion assistance package involving the Inter-American Development Bank, the World Bank, Spain, and private lenders. The agreement assumes GDP will grow at a rate of 2.5% in 2001 (versus actual decline of 5.0%).
- March 19 Domingo Cavallo, Minister of Economy under Menem and architect of the currency board ten years earlier, replaces Ricardo Lopez Murphy, who resigns as Minister of Economy.
- June 16-17 The de la Rúa government announces a \$29.5 billion voluntary debt restructuring in which short-term debt is exchanged for new debt with longer maturities and higher interest rates.
- June 19 The peso exchange rate for merchandise trade is priced at a 50/50 dollar-euro peg, effectively allowing a 7% devaluation for foreign trade in hopes of improving Argentina's international competitiveness. Many analysts raise concern over the effects on the credibility of the convertibility regime.
- July 10 Cavallo announces a plan to balance budget, but the markets react negatively, expressing lack of confidence.
- July 19 Unions call a nationwide strike to protest government austerity plan.
- July 29 The Argentine Congress passes "Zero Deficit Law," requiring a balanced budget by the fourth quarter of 2001.
- September 7 Based on Argentina's commitment to implement the "Zero Deficit Law" immediately, the IMF augments its March 10, 2000 agreement for a second time, increasing lending commitment by another \$7.2 billion.
- October The use of provincial bonds as "scrip" to pay public salaries becomes more widespread as federal revenue transfers decline.
- October 14 The opposition Peronist Party wins control of both chambers of Congress in mid-term elections.

- November 6 Argentina conducts a second debt swap, exchanging \$60 billion of bonds with an average interest rate of 11-12% for extended maturity notes carrying only 7% interest rate. International bond rating agencies consider it an effective default.
- November 30 A run on the banks begins, with central bank reserves falling by \$2 billion in one day. President de la Rúa imposes \$1,000 per month limitation on personal bank withdrawals.
- December 1 Protests begin over bank withdrawal limitations.
- December 5 The IMF withholds \$1.24 billion loan installment, citing Argentina's repeated inability to meet fiscal targets.
- December 7 Argentina announces it can no longer guarantee payment on foreign debt.
- December 13 The government announces that the unemployment rate reaches near record high of 18%. Unions call nationwide strike.
- December 14 Supermarket looting begins.
- December 19 Rioting spreads to major cities over deep budget cuts. The government declares a state of siege. Minister of Economy Domingo Cavallo resigns.
- December 20 President de la Rúa resigns in the wake of continued rioting, leaving 28 people dead.
- December 21 Congress accepts President de la Rúa's resignation. Senate President Ramon Puerta is named provisional president for 48 hours.
- December 23 Congress appoints San Luis Governor Adolfo Rodríguez Saa as interim president until elections can be held in March 2002.
- December 26 The liquidity standards for banks are relaxed. Rodríguez Saa announces a new economic plan based on: 1) suspension of payments on public debt; 2) new jobs creation program; and 3) creation of new currency (the *Argentino*) to begin circulating in January 2002 and not to be convertible to the U.S. dollar.
- December 30 President Rodríguez Saa resigns after continued rioting and loss of party support. Senate leader Puerta resigns to avoid second appointment as interim president. No immediate successor emerges to take over the Presidency.
- December 31 The Argentine Congress selects Peronist Senator Eduardo Duhalde to complete December 2003 Presidential term.

2002

- January 1 Senator Duhalde sworn in as President. He blames Argentina's economic problems on the free-market system and vows to change economic course. Except for debt moratorium, new economic policies are unclear.
- January 6 After the Argentine Congress passes necessary legislation, President Duhalde announces the end of the currency board and a plan to devalue the peso by 29% (to 1.4 to the dollar) for major foreign commercial transactions, with a floating rate for all other transactions. Other elements of economic plan include: converting all debts up to \$100,000 to pesos (passing on devaluation cost to creditors); capital and bank account controls; a new tax on oil to compensate creditors for the losses that will ensue; renegotiating public debt, and a balanced budget.
- January 10 Government announces it will "guarantee" dollar deposits, but to curtail bank runs, the \$1,000 (1,500 peso) limit on monthly withdrawals is maintained and all checking and savings accounts with balances exceeding \$10,000 and \$3,000, respectively, will be converted to certificates of deposit and remain frozen for at least one year. Smaller deposits have the option of earlier withdrawal by moving to peso denominated accounts at the 1.4 exchange rate.
- January 11 The government extends the bank holiday two extra days, while the foreign currency market opens for first time in three weeks. The peso falls immediately to 1.7 per dollar.
- January 15 The peso falls as low as 2.05 to the dollar in active trading.
- January 16 The IMF approves request for one-year extension on \$936 million payment due January 17, keeping Argentina from falling into arrears.
- January 17 The government announces that dollar denominated loans exceeding \$100,000 will be converted to pesos at 1.4 for fixed rate, deepening the balance sheet mismatch of banks.
- January 19-20 Duhalde reverses his decision to guarantee dollar deposits, which will be converted to pesos at some undefined devalued exchange rate.
- January 23 The Argentine Senate passes bankruptcy law that would use capital controls to restrict payment of foreign private debt payments through December 2003.
- January 28-29 Foreign Minister Carlos Ruckauf visits with Bush Cabinet members to appeal for political and financial support (including IMF assistance) as protests continue in Argentina.
- January 30 IMF team meets with Argentine officials, who declare intention to adopt a floating exchange rate in near future. Argentina's Chamber of Deputies

passes controversial bankruptcy law, stripping it of the Senate provision prohibiting foreign debt payments, but other capital controls remain in effect. It retains language allowing conversion of dollar denominated debt below \$100,000 to pesos at 1-to-1 rate (benefitting debtors) and suspending creditor action on loan debt defaults for 180 days.