

The Argentina's 2001 Debt Crisis

THE EVENTS IN 2001

Argentina entered 2001 with an economy already mired in a prolonged recession due to plenty of external factors, which could be summarised as follows (International Settlement Bank, 2002) :

- Russia's debt default in August 1998 caused investors to flee emerging markets and raised the cost of Argentina's foreign borrowing
- Weak world commodities prices in the late '90s especially agricultural and base metals, caused by a slowdown of the world economy due to the end of the US growth cycle (O'Connor, 2000)
- Peso (the Argentina's currency) exchange rate appreciation, resulting both from devaluation in Brazil (Argentina's main economic partner) during 1999 and a steady US dollar appreciation .

That is why in April 2001, the local authorities sought to stimulate growth while limiting the fiscal deficit at the same time. New corporate investment was expected to come through increasing the liquidity of the banking system, a reduction in tariffs on capital goods and higher tariffs on consumer goods. On the fiscal side, a tax on financial transactions was introduced to raise additional revenue.

These measures failed to stop the economic slide. The lack of clarity about policy implementation and conflicts among key policymakers sapped market confidence, pushing bond spreads above 1.000 basis points. Investors questioned in particular the extent of fiscal adjustment, given that the provinces were not obliged to cut spending. The loosening of commercial bank reserve requirements, while designed to increase liquidity, undermined the credibility of the currency board and reduced bank's ability to attract foreign capital. Faced with a difficult liquidity situation themselves, in June 2001 the authorities swapped some \$30bln of maturing external debt for longer-term bonds. The swap was very costly (some new bonds carried rates of nearly 16%) and thus substantially increased the future debt burden. The authorities announced in late July a zero deficit plan, requiring all levels of the government to restrict spending for the rest of the year to the amount of revenue collected.

No effort was made to constrain both inflation and exchange rate movements

As economic activity and tax revenues continued to shrink, households began to withdraw their bank deposits in July and August 2001. Foreign reserves fell sharply and markets began to anticipate more disorderly scenarios resolving the crisis.

The retrenchment in private capital flows to the emerging markets following the events of 11 September prompted the government to seek further relief by restructuring some \$40bln of public sector debt held by local banks, pension funds and provincial governments.

With a difficult external debt restructuring still lying ahead, the economy contracting and fiscal revenue falling rapidly, bond spreads soared past 3.000 basis points in late November.

A worsening of deposit flight led the government to restrict both withdrawals and transfers abroad, while on late December 2001, the government also suspended external debt payment. In early January 2002, Argentina abandoned the currency board regime; first announced a dual exchange rate and finally a floating rate system one. When the peso was allowed to float freely, it plunged more than 70% against the dollar.

No effort was made to establish a domestic policy anchor to constrain both inflation and exchange rate movements, while severe controls on bank transfers meant that the currency became virtually non-convertible. All dollar-denominated deposits and liabilities in the banking system were converted into pesos but at different non-market exchange rates. These policy changes have imposed large costs on Argentine banks and their customers, while pushing the banking system and the whole economy ever deeper into crisis. In the meantime the spread on Argentine bonds has hovered around 4.000 basis points since late December.

Recent data suggest that inflation could reach almost 50% in 2002 after three years of deflation. Real GDP shrank by 5% in 2001 and current projections envisage a 10% drop in output in 2002. The current account deficit narrowed last year due to severe import compression but the fiscal deficit rose despite spending cuts. The budget for 2002 maintains the cuts in public sector wages and pensions as announced last year. It increases spending only on

emergency help for the poor and foresees a deficit of about 1% of GDP.

INTERNAL STRUCTURAL FACTORS LYING BEHIND

Seen against the backdrop of good economic performance and resilience to shocks from 1991 to 1997, backed by a solid predominantly foreign-owned banking system, the gravity of the Argentine situation has come as a surprise to many investors. The reasons for this outcome are clearly worth exploring, since several fundamental weaknesses of its economy have been well known for some time (Lamfalussy, 2001).

- The Argentine economy is both very closed to foreign trade, highly indebted towards international investors. It is also strictly linked to the US dollar currency exchange. Agricultural and merchandised exports accounted for just 10% of GDP in 2001 (while Brazil exports amount to 15% and European Union to 35%) , while the total external debt amounted to 55% of GDP. Public sector debt held domestically, much of it denominated in US dollar, amounted to an additional 25% of GDP. The ratio of short term external debt to foreign reserves was very high, around 115% at the end of 2000.

This combination of high external debt and low export earnings meant that external debt service requirements amounted to 85% of current account receipts in 2001. Total external debt was equal to about 400% of exports of goods and services, an exceptionally high level that indicated the potential risk of an external financing crisis.

While these debt indicators were never particularly favourable for Argentina, they had all risen substantially since the mid '90s. Total external

debt increased by 15% of GDP between 1996 and 2001. Total debt service as a percentage of exports of goods and services almost doubled. Central government debt rose from 35% of GDP in 1996 to 55% in the same period. Nowadays Argentina accounts for up to a quarter of tradable emerging market debt (Chaffin, 2000).

- Private and public sectors both had large domestic liabilities denominated in US dollars, but few dollar earning assets to match. During the currency board regime, these currency mismatches were masked by convertibility arrangements under which the peso and the dollar seemed equivalent. However the Argentine economy was extremely vulnerable to any interruption in external financing and in particular to a potential devaluation of the exchange rate.

Once external financing cut was lowered, expectations of a large devaluation led to a quick reassessment of the government's debt service and fiscal position. This in turn raised fears about a possible government debt default. Such concerns also led to a deterioration of the perceived quality of corporate balance sheets and thus to the emergence of new contingent claims on the budget. The quality of bank assets also worsened: the deepening of the recession affected the standing of claims on the private sector while banks were also exposed through holdings of government paper. The central bank attempted to contain the run on the banks by providing liquidity to the deposit losing banks and raising reserve requirements for the deposit taking mostly foreign owned banks. Anyway its

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actions were clearly circumscribed by the currency board arrangement.

CONTROVERSIAL AUTHORITIES' DECISIONS

Following the outbreak of the crisis, the announcement of certain measures by the authorities and their modification within days increased uncertainty. One announcement was the conversion of dollar denominated loans into pesos at an exchange rate of one peso per dollar. Another one converted the dollar denominated deposits into pesos at an exchange rate of 1.4 pesos.

These asymmetrical changes created problems for which the banks and their customers were wholly unprepared. Most private banks were viable under the old convertibility regime. Depending on the credit standing of their customers, some of them might even have remained viable after the government debt default and the devaluation. But the proposed changes would generally have resulted in losses exceeding the equity positions of shareholders in these banks.

Another highly damaging measure has been the freeze on deposits. Although forwarded as a temporary measure to stop bank runs in previous banking, this deposit freeze has been so comprehensive and protracted that it has virtually suspended the domestic payment system.

Given that a large fraction of the Argentine economy, especially in the service sector, is informal and operates in cash, the freeze has weighed heavily on economic activity. While the impact of the freeze is difficult to isolate from other aspects of the banking crisis, it has undoubtedly compounded a general

decline in confidence in the banking system and in overall economic policies. The longer run effects may be further deposit outflows to banks abroad (thus vanishing all previous efforts), higher costs of credit banking services and a reduced scope of financial intermediation.

Considerable damage was also done by amendments to the bankruptcy law, which severely restricted creditor rights and uncertainties about the application of the “economic subversion law” under which bankers and businessmen were subject to court action for bad or negligent business decisions. Although the controversial provisions of both laws were amended in May 2002, the uncertainties they created had already severely spoilt the confidence of investors and businessmen in the application of basic legal rights.

THE CRISIS’ CONSEQUENCES ON INTERNATIONAL BANKS ACTIVITY

Over the past decade, foreign bank participation has come to be seen as key to developing the banking systems in emerging market economies. Foreign owned banks became major players in many emerging markets. In Argentina they accounted for well over one half of banking system assets and liabilities. Supported by a strong supervisory regime, the Argentine banking system was considered among the strongest in Latin America.

However, the Argentine government debt default, the sharp devaluation of the peso and uncertainties concerning the status and character of deposit and loan contracts as well as creditor rights, quickly pushed Argentina’s banking system to the brink of collapse.

International banks may pay more attention in establishing new operations in those emerging market economies where political, legal and judicial systems are perceived as being unreliable. More generally, international banks may tighten their standards for lending to emerging market governments and public sector institutions through local subsidiaries.

Another longer-term outcome could be that banks which derive a high proportion of profits from operations in one particular emerging market will seek to diversify their investments.

Since the mid '90s, foreign banks have been setting up subsidiaries in many emerging markets. In part, this was an effort to limit their cross-border exposures and to avoid currency mismatches associated with foreign currency lending from their home bases.

However, the Argentine experience indicates that, when bank customers hold foreign currency deposits but have few other dollar earning assets such as export receipts, devaluations may hit the banks equally hard. Foreign-owned banks may therefore adopt more prudent pricing policies for foreign currency loans, or focus entirely on local currency business.

A broader concern for the emerging market economies is that inflows of foreign direct investment could be affected because of the large losses facing the foreign companies that had invested heavily in Argentina. In addition, given the heavy losses suffered by continental European retail investors, emerging market economies may find it more difficult to place their debt issues with retail investors in the future. In order to consider this aspect it would be interesting to consider the industrial strategy plan revision along

2002 set by the main European banks involved in the Argentina's bank system. We refer in particular to German, Spanish and Italian ones.

ARGENTINA '90S ECONOMIC REFORM

On December 2001 D. Cavallo Argentina's minister of economy, announced, among other measures, the decision to establish controls and restrictions on transactions in the foreign-exchange market. He thus put an official end to the monetary regime that he promoted ten years before (Damill, Frenkel and Maurizio, 2002).

Most Latin American countries had an inflationary problem in the '80s but only Argentina chose to tackle it with a currency board. This system, under which the money supply is limited to the stock of hard currency reserves, was set up in 1991 and left the government with few policy tools to deal with potential external crisis factors. The economic breakdown and social turmoil brought President De la Rúa's administration to an end well



Domingo Cavallo

before the completion of its constitutional term which begun at the end of 1999.

The macroeconomic regime of the '90s, including convertibility of the peso at a 1-to-1 rate with the U.S. dollar, is over. An entire decade passed between the initial success of the hard pegging of the exchange rate to its abandonment following a protracted recession that persisted for more than three years. At present, the Argentine economy is struggling to emerge from

uncertainties that arose with the downfall of the former set of economic rules. It faces the challenge of recovering the basic macroeconomic balances in an unfavourable international context (Giavazzi, 2002: 27).

In addition to convertibility, reforms included a massive privatisation of public utilities (Hugh Jones, 2000), deep trade and financial opening, equal treatment of local and foreign capital and the deregulation of domestic markets. At first, both a drastic disinflation and fast economic growth seemed to prove that this combination was working. At the beginning, the currency board not only killed hyperinflation but also allowed the country to grow after two decades of stagnation. Other reforms, like the autonomy of the Central Bank and the reorganization of the pension system, were later implemented as additional measures to consolidate the institutional framework.

Otherwise some negative signals were already perceptible during the initial expansionary phase that preceded the Tequila episode of late 1994. Those ones did not regard only the rising financial vulnerability to sudden stops or reversions of capital inflows. Well before the impact of the Mexican crisis, some labour-market indicators undeniably began to deteriorate. Lack of employment creation became evident as a problem in a period of economic growth. Income distribution indicators were also showing an early worsening. In the second half of the '90s, a much poorer macroeconomic performance laid behind a generalized deterioration of labour market and income-distribution indexes. This phase led to a deep crisis and the breakdown of the convertibility regime in December 2001.

TWO MACROECONOMIC CYCLES OBSERVED THROUGH THE '90s

The success of price stabilization came together with a lengthy four year expansion and a subsequent short recession in 1995. A brief recovery followed while the current recession began in mid 1998, characterized by a long contraction period. It was a true depression, accompanied by a declining trend in nominal prices. This second phase led to the crisis of the monetary regime at the end of the '90s.

Capital flows had a crucial role in the short run macroeconomic dynamics through their impact on interest rates, internal liquidity and aggregate expenditure. In the early '90s, the net capital inflows exceeded the current-account deficit, thus allowing for an accumulation of foreign reserves while feeding domestic credit creation. Capital inflows reached a double target: price stabilization and output growth.

Significant capital outflows would later cause the recession of the mid '90s. Renewed inflows gave impulse to the next recovery. A worsening of the international context after the crises of Southeast Asia in 1997 and Russia in 1998 would stop the economic expansion and prompt the second recession in the decade. The concluding access to foreign credit would determine the collapse of the regime.

Under the convertibility framework there was an evident relationship between fluctuations in capital flows and the domestic cycle. Changes in international conditions regarding liquidity and credit availability had an immediate impact on domestic interest rates, money supply and credits as well

as on the short run macroeconomic performance: a particularly disadvantageous feature, given the volatility of international capital movements. Furthermore, the currency board regime obliged the Argentina's central bank to deal without monetary instruments (Campbell, 2000). It can neither devalue nor ease monetary policy. This has condemned it to a pro cyclical monetary policy and sequence of boom and bust. Argentina grew too fast in 1997 but could not raise rates. While struggling to escape recession it cannot cut them. The inflationary instability of the '80s has been replaced by instability in real interest rates and demand. The dollarisation would eliminate the interest rate premium associated with devaluation risk but it would not permit Argentina to implement an appropriate monetary policy. This clearly makes the country particularly vulnerable to external shocks.

CYCLE'S EFFECTS IN THE LABOUR MARKET

Exchange rate based stabilization processes like the one in Argentina in the early '90s, which also involved a simultaneous trade opening, privatisation and fiscal adjustment, tending to generate a characteristic dynamic that can also be observed in other national Latin American experiences.

In the labour market we can typically see the development of a cycle in employment and distribution. In the early '90s, both the employment levels and the average real incomes initially grew. However, in the following contraction phase, those effects weakened and a number of negative factors became dominant.

The ratio of full time employment to population after having increased

from 1991 to 1992 started to fall to a new low in 1996 well below its 1990 level. The ratio of the number of employed to the population began to decline and the unemployment rate to rise well before the turning point of the economic expansion. The average earnings and the employment rate rose again in the second cycle of the '90s to decline once more from mid 1998. By the end of the period the average real incomes were almost 10 percent below the 1994 level. Meanwhile, the unemployment rate increased by 4 percentage points in the same period.

The contraction adjustment of employment in the '90s can be understood as a gradual adaptation to the conditions of trade opening and relative prices set at the beginning of the decade. Increased competition of imported goods on one hand and a strong upswing ratio between average wages and the cost of imported capital goods on the other explain a significant drop in labour demand.

Although both the privatisation process and the fiscal adjustment had some negative impact on employment, the dominant effects came from the restructuring and concentration of economic activity in manufacture sector (Hugh Jones, 2000).

The increases in the demand for manufactured goods could not offset the direct displacement of domestic production by imported goods and the reduction in the number of jobs per unit of output as an adaptation to the new set of relative prices. Anyway this was a kind of obliged choice if the Argentina's merchandise exports intended to compete in the international markets.

Income distribution indicators improved slightly in this initial period. The incidence of poverty showed a fall from the levels related to the hyperinflationary phase of 1989-1990. However after an initial reduction, it started to climb early on, while the economy was still in expansion. This affairs worsened after 1994. Average real incomes fell rapidly as a consequence of lowered wages and a higher unemployment rate. The rising unemployment rate is the main factor in explaining the deterioration in income distribution indexes. A pro cyclical fiscal policy was added to these factors from late 1999 when the public sector access to foreign credit became increasingly more expensive. The economic difficult phase had another manifestation in the lack of policy instruments to help the economy emerge from the scenario of depression and price deflation.

*The 1998 Russian
Crisis worsened
Argentina's
macroeconomic
performance*

After a deterioration in the mid '90s, the estimated income distribution indicators recorded a moderate improvement in the ensuing expansion from 1996 to 1998 but they never reached the 1994 levels. Following the spill over of the Russian crisis, the macroeconomic performance clearly worsened while other factors assumed a central role.

We refer in particular to the accumulation of foreign debt, which was a consequence of the persistent deficits in the current account of the balance of payments. The debt overhang is another constraint to growth that reinforces the effect of the low profitability of firms in the tradable sector through the high cost of credit facing the private sector. The desired increased amount of

exported goods was too low and did not bring the projected surplus in the tradable balance. Furthermore agricultural exports faced harmful tariff and protectionism actions in the Us and European Union markets.

The combination of higher financial fragility with an unfavourable shift in the international scenario led to a significant decline in private capital inflows from 1998. The accumulation of foreign reserves stopped, negatively impacting domestic liquidity and pushing up interest rates. A new economic contraction followed in addition to a decline in average real earnings. The described landscape happens to be the scenario preceding the outburst of the crisis, whose consequences will certainly include an additional worsening of labour conditions and income distribution indicators.

AN EXAM OF THE CONVERTIBILITY REGIME

Although some reforms such as the privatisation of natural monopolies and pension funds without adequate regulation had direct negative impacts on fiscal accounts and income distribution, the administrations of Menem and De la Rúa should be held responsible mainly for setting up and supporting the convertibility regime. The authorities avoided sensible analyses, international experience and the evidence on the worsening of the country's economic and social situation. Argentine performances were basically the same as those observed in Mexico between 1988 and 1994 and in Brazil between 1994 and 1998. In all mentioned cases, a cycle developed with a first expansionary phase followed by a period of stagnation or recession. External reliance and financial fragility increased, finally ending with a financial and exchange rate crisis. The

decline in the number of Argentina workers in the tradable and formal sectors, the rise in unemployment or employment in the informal sector and the deterioration in income distribution were also common features of the above mentioned national cases. Argentina experienced the cycle twice in the decade. After 1995 the economy underwent another short expansionary phase backed by a new surge in capital flows that lasted until the Asian crisis. As a consequence of the first cycle, high external debt ratios and a high unemployment rate were part of the initial conditions of the second cycle.

It is important to underline that the appreciated exchange rate and the partial dollarisation of the local banking system were not necessary elements of a currency board regime but they arose from specific local circumstances. The exchange rate was greatly appreciated when it was pegged to the dollar in 1991. Coming from a highly depreciated exchange rate reached in early 1990 during the hyperinflation context, the exchange rate significantly rose. Fluctuations in the multilateral exchange rate around the trend were mainly caused by exchange rate fluctuations in Brazil.

The Argentine experience was not original, but it turned out more serious than in other countries

The partial dollarization of the domestic financial system is an important factor and explains both the persistence of the regime and the complexity of the present financial crisis. The convertibility law sanctioned the validity of monetary contracts denominated in any currency. The measure was intended to encourage the repatriation of Argentine capital allowing local residents to

make deposits in dollars. Despite the high credibility enjoyed by the exchange rate commitment private sector savers shown preference for dollar denominated deposits while banks hedged balance sheets against exchange rate risk by offering dollar denominated credits. Consequently there was a persistent trend toward a growing proportion of dollar denominated assets and liabilities in the local banking system. The exchange risk burden was carried by foreign investors, banks, big firms indebted abroad and also by many local bank with peso denominated assets. Later, this feature greatly amplified the wealth effects of devaluation and forced the authorities to implement a massive intervention in private financial contracts. As was mentioned above, the Argentine experience is not original because it resembles other cases of trade and financial opening with exchange rate appreciation. On the other hand, owing to some specific characteristics, it might be said that the negative consequences of financial globalisation were more accentuated in Argentina than in other countries.

**THE CONVERTIBILITY REGIME SETTING DETERMINED TWO FEATURES
OF THE MACROECONOMIC PERFORMANCE**

- The combination of trade opening with an appreciated exchange rate has resulted in a chronic trade balance deficit. Furthermore there was a growing structural deficit in the factor services account, caused by debt accumulation and foreign capital investment. Consequently, the regime generated a rising current account balance deficit. This means that the economy required substantial net capital inflows to reach a positive rate of

growth. Moreover, the economy required increasing external capital inflows to sustain any positive rate of growth.

- The volatility of the international financial conditions was mechanically transmitted to the domestic activity and employment levels. The correlation between national performance and the behaviour of international capital markets is a common emerging economies' characteristic. In this case, correlation was accentuated by the convertibility regime since it avoid any significant monetary and nominal flexibility.

The currency board regime played up to some extent its intended role as an automatic stabilizer of the external accounts. A balance of payments deficit caused an automatic contraction in money and credit, a fall in aggregate demand and a consequent contraction in imports. But in the convertibility regime, the deepest recessions left the current account with a substantial deficit and a very high unemployment rate.

These features weigh on the negative side of international investors perceptions and tend to compensate the positive side. The Argentine version of the currency board, far from moderating the risk of default, augmented it. The investors' community had to express opinions and bet on the risk of default and on the permanence of the convertibility regime. Default or the abandonment of the convertibility regime was one of the potential outcomes in the Argentine case.

One difference between Argentina and other emerging market was the reduced relevance of domestic economic factors. What counted most for sustainability were external factors. These elements included the main external

circumstances affecting the prospects of the trade balance such as export commodity prices and Brazilian demand for Argentine imports. Given that the bulk of financial needs originated in inertial sources (debt rollover and the deficit in the factor services account), the most important conjecture had to focus on the future behaviour of the international financial market. The signals about the prospects of the trade balance were valued mainly for their expected influence on the financial market's future behaviour. Because the convertibility regime gave little room for correcting policies, the government's economic policy was restricted to delivering signals. Fiscal adjustment and fiscal equilibrium commitments were credibility signals of sure value, despite their negative impact on the aggregate demand. An agreement with the IMF weighted more as a signal to the market than the amount of resources committed in it (Catan, 2000).

CONCLUSIONS

It has already been mentioned that an acute dependency on external capital inflows is the original sin of the convertibility regime. Sustainability and growth expectations fluctuated throughout the '90s driven by good and bad data. The Mexican crisis contagion disappointed the initial expectations of persistently high capital inflows and revealed their volatility. Booming commodity prices and the Brazilian real plan represented good news. Helped by the positive real shock and an \$11bln rescue package, the convertibility regime survived the Tequila effect. The combination of both a favourable real external environment and the very success of the rescue operation gave

strength to unfounded optimistic expectations and a new surge in private capital inflows. These conditions lasted until the Asian crisis. From then on capital inflows declined and the country risk premium rose marked by the Russian Brazilian crisis and the Brazilian devaluation. In 1998-1999, while the general financial conditions of the emerging markets reflected the lasting effects of the crisis started in Asia, the main external real factors of the Argentine economy changed for the worse. Without the compensating effect of external good news, the low competitiveness of the Argentine economy regained relevance. The last wave of moderate optimism was motivated by the support package negotiated with the IMF in October 2000. The effect lasted for only a month.

In no occasion throughout that turbulent history was an eventual withdrawal from the convertibility regime put under serious public discussion. Although some criticism was expressed from time to time, no significant political or social representative has taken an open position in favour of a change of regime. Few economists focused their analysis of Argentina's

No one seriously questioned the convertibility regime until the crisis erupted

problems on the difficulties embodied in the regime. The convertibility regime was taken for granted and not to be discussed in rational terms. On the other hand, some influential economists strongly supported the regime. Their arguments emphasized its virtues in the discipline it imposed on government and society. Those virtues were expected to bear fruit in competitiveness, higher exports and sustainable growth. Specific interests help to explain the

situation. Banks, large local firms indebted abroad, foreign owned companies and financial intermediaries were strongly interested in continuity. Anyway a change in the convertibility regime would have been a very difficult and risky policy move. Acceleration of inflation was a real threat and fear of inflation constituted the main source of adherence to the fixed exchange rate. Convertibility and price stability were almost interchangeable terms in the public arena. No less difficult and risky seemed to be the change according to the local financial system. The change of regime would have been a risky operation and authorities in office would have carried the burden of responsibility. They would have been blamed for the short run negative consequences. Most of public attitudes, opinions and silence were driven rather by fear than by conviction. Finally the crisis, not a decision, put an end to the convertibility regime.

TWO POSSIBLE WAY OUT. OPPORTUNITY OR BACK TO THE PAST ?

Nowadays the total defaulted Argentina's debt amounts \$150bln. Something amazing if we consider the withstanding current peso dollar exchange rating 1 to 4. Since domestic capitals exported abroad along those years account to \$100bln, an effort could be made in order to draw back this huge amount of capital.

The key is to stabilise inflation and strengthen the peso exchange rate against the dollar. This should attract foreign investments too. Merchandise exports should improve in order to bring back heavy currencies like dollar or euro. Maybe agriculture and raw materials exports should be expanded as

well since Argentina has plenty of potential production not yet developed. The way to lower dependency on foreign demand, raw materials prices and tariffs on exported goods could be to develop a local middle class of technicians and businessmen. This, in order to improve the weight of manufactured exported goods containing more added value while developing Argentina's product distribution abroad. This requires new investments in the emerging industrial sector located in the downstream part of the added value chain first. Then, a growing productivity and efficiency in the old local sector.

Best human resources and new ones should be driven from local industry to export-oriented ones. As we can see, there are some opportunities in the last peso devaluation which the administration should acquire very fast. The first choice should be to let inner wages and consumption grow, supporting the local industry. Another way should be to increase openness toward international markets and develop her industrial production in order to face external competition. This means rigorous fiscal policies and less protectionism to local industry on the one hand, and more competition and less public employment on the other hand.

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