

## Argentina's Countdown Clock

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By Arturo C. Porzecanski



The world's eyes may be focused on the Olympic Games taking place in London, but for those needing a break there is at least one alternative that is being provided courtesy of the government of Argentina: a countdown clock on the main page of the Ministry of Economy's website (<http://www.mecon.gov.ar/>) and on various large television screens in the lobby of the ministry's headquarters in Buenos Aires.

There, authorities have been displaying in days, hours, minutes, and seconds the time to repayment on Friday, August 3, of the last \$2.2 billion installment of a dollar-denominated, benchmark government bond known as the Boden 2012. Economy Minister Hernán Lorenzino has been sending out enthusiastic tweets about the upcoming event since early July, bragging about the payment as evidence of the government's determination to reduce its indebtedness—which explains the message to the right of the clock that translates as “Without debt we are more free.” He has also proudly pointed out that the Boden payment demonstrates that, in contrast to the approach taken by European governments nowadays, Argentina is able to meet its debt obligations without having to impose painful fiscal-austerity measures (“*sin ajuste social*”).

And to squash rumors to the contrary, President Cristina Kirchner has given repeated assurances that despite a dearth of dollars in circulation in the country because of stringent capital controls, which have spawned various parallel markets where dollars cost 40-50 percent more than in the official market, “the Boden 2012 will be paid as we

have to: in dollars.” Both of them have recalled that paying off this obligation is in line with the policy of deleveraging (*desendeudamiento*) that was inaugurated in 2006 by the late President Néstor Kirchner, when he paid off the government’s debt to the IMF (almost \$10 billion) years ahead of schedule.

A grand total of \$17.6 billion of these Boden bonds were issued during 2002-03 by the government of Eduardo Duhalde to Argentine bank customers and to the banks themselves, in the wake of decisions to default on the public debt and to devalue the currency. The former saw their dollar-denominated term deposits frozen indefinitely (the so-called *corralón*), and the latter faced insolvency after the government decreed that dollar loans and deposits were to be converted into pesos at different exchange rates—such that everyone who owed the banks dollars could repay them cheaply, at the pre-devaluation exchange rate.

The ugly choice faced by depositors was to take payment in these 10-year dollar bonds or else agree to the disadvantageous conversion of their deposits into pesos while regaining gradual access to them. Most of those who took the Boden bonds later resold them for cash at a huge discount, mainly to risk-prone domestic and foreign investors who were not in a hurry to collect.

While it is good to see the Argentine government honoring one of its most infamous debts, the hype surrounding the upcoming payment of the Boden 2012 serves to illustrate the misinformation campaign which the Cristina and Néstor Kirchner administrations have pursued when it comes to matters financial and economic. The reason why the government has not had to raise taxes or cut spending European-style in order to come up with the requisite \$2.2 billion is because the economy ministry is simply helping itself to a portion of the central bank’s official international reserves in order to make Friday’s payment.

For years now, the government has been borrowing or outright taking dollars from the monetary authority to meet the bulk of its upcoming debt payments. The tradition was inaugurated by the late Néstor Kirchner when he pre-paid his government’s debt to the IMF back in 2006. He did so by getting the cash from the central bank and handing back a 10-year bond paying a rock-bottom coupon.

Moreover, it is not at all true that Argentina has been reducing its public debt. Official statistics show that the public debt actually increased by more than one-fifth in just the past two years, from \$147 billion as of end-2009 to \$179 billion as of end-2011. This is because the government budget has been in the red for several years now, and thus has needed to be financed through new debt issuance. Besides, these figures do not include the many billions of dollars that Argentina owes to unpaid bondholders who have won court judgments (mainly in the United States) and arbitral awards (mainly through ICSID—the International Center for Settlement of Investment Disputes in Washington DC) against the government in Buenos Aires. The Kirchner administration is also silent on the issue of settling the more than \$7 billion that it owes official export-credit agencies such as the Export-Import Bank of the United States and its equivalents

in Europe and elsewhere, to which not a dime of interest or principal payments has been made since defaulting to them starting in December 2001.

It is good publicity for Argentina that the debt countdown clock measures the time to a single, major upcoming payment. The more revealing and relevant clock—one that would show how much Argentina has yet to pay back—would convey an unflattering picture.

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