



Behind Argentina's Making up with its Creditors

By Arturo C. Porzecanski*



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A recently concluded agreement in principle between Argentina and most of its holdout creditors is part of a 180-degree turn in economic policy that the new administration of Mauricio Macri is attempting to make in order to end five years of economic stagnation, 10 years of double-digit inflation, and 15 years of isolation from the international capital markets. President Macri has to navigate very carefully, however. First, he does not have a majority in either congressional chamber, so he has to work hard to persuade legislators to support his policy initiatives. Second, the judiciary and the Executive branch are packed with political appointees from the Néstor and Cristina Kirchner administrations, and while some of them have been fired, Macri and his economic team must still tread cautiously. Third, all the key economic institutions, such as the government's commercial and development bank (BNA), the central bank (BCRA), and the social security administration (ANSES) have been stuffed to the gills with either risky or unprofitable assets (from bad loans to government IOUs), thereby compromising their effectiveness. Last but not least, Macri must be mindful of his very fickle electorate: over the past seven decades, Argentines have periodically voted non-Peronists into office to clean up the mess left behind by the Peronists, but then they have soured and yanked their support. It is a sobering fact that not a single non-Peronist government has ever made it to the end of its constitutional term in office.

This is why the Macri administration is going for some “quick wins” rather than for major structural reforms or the necessary dose of fiscal austerity and monetary restraint. And this is the context within which his willingness to “bury the hatchet” with private and official creditors must be understood. As a former businessman, Macri realizes that if one takes over a money-losing enterprise – in this case the public sector, which is running a deficit equivalent to more

than five percent of GDP – one needs to cultivate sources of interim financing until the enterprise can be turned around. After all, the prior government had been living hand-to-mouth on loans from the BNA, the BCRA, and ANSES, with increasingly inflationary consequences. Having lost official international reserves and seen the currency depreciate rapidly after abolishing capital controls, the authorities are now under great pressure to obtain interim financing from abroad to help stabilize international reserves and support the weak currency.

President Macri faces a very difficult governance challenge in the months and years ahead. His ability to mend fences with private creditors – Argentina has been in arrears to all its bondholders since mid-2014 – as well as with the IMF, multilateral development banks, and official creditors such as the Ex-Im banks – is crucial to the restoration of financing to the private and public sectors and the fostering of an investment-friendly climate. Macri's agreement in principle with most holdout creditors is a big step in the right direction, but he must now secure the requisite congressional approvals to dismantle Kirchner-era legislation inimical to a settlement and obtain interim financing at reasonable interest rates to clear all overdue debts. These are early and relatively easy tests for a government that is yet to adopt most of the divisive and unpopular austerity measures that circumstances warrant.

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