
NINE MONTHS OF THE KIRCHNER GOVERNMENT IN ARGENTINA FEBRUARY 19, 2004

The South America Project organized a discussion of the first nine months of the Kirchner government in Argentina. The panelists included Rodolfo Gil, Argentina's ambassador to the Organization of American States, Rosendo Fraga, Director of the Centro de Estudios, Union Para la Nueva Mayoria in Buenos Aires, and Claudio Loser, visiting Senior Fellow at the Inter-American Dialogue.

Rodolfo Gil structured his comments around the reasons for Kirchner's current popularity (82% now compared to 22% after the election) and the challenge of confronting the external debt and negotiating with the IMF and private creditors. Regarding Kirchner, Gil described him as an 'incarnation of the new desires of the Argentine society.' He supported this assertion by detailing the reasons behind the 1998 default and high levels of unemployment, including fatigue in 96-97 brought on by the Washington Consensus, and overspending by Argentine citizens. He related Kirchner's popularity to his identification with the Argentine people and his populist position on the repayment of the national debt.

Gil then addressed the economic situation in the country, and divided blame for the crisis among 5 actors. First, he blamed the Argentine public for overspending in pursuit of the 'American Dream.' Next, he targeted multilateral lenders for continuing to finance the spending. Third, he cited private financial institutions that overzealously convinced buyers to purchase bonds in order to earn commissions. Fourth, he placed blame with the investors that actually bought the bonds without evaluating risk, and finally, he blamed the change of perspectives in Washington, as Bush stopped funding Argentine debt after being elected.

Rosendo Fraga dedicated his comments to describing the international political risk associated with Argentina perpetuating its debt. According to Fraga, 90% of Argentines are against repaying the debt, and Kirchner has taken advantage of this opinion by assuming a populist stance and refusing to repay the full debt. Fraga asserted that in the short-term, it is politically feasible for Kirchner to deny repayment because there are no short-term consequences. If Argentina does not acquiesce to the IMF's deadline of March 9, there is no immediate consequence that will follow. However, Fraga warned that in the long term, Argentina will isolate itself from the rest of the world by not paying its debt and will never enjoy high levels of foreign investment again. In conclusion, he recommended that Argentina soften its position and demonstrate greater flexibility.

Claudio Loser assessed the Argentine economy stating that the exchange rate has strengthened, spreads are declining, commodity prices have increased, exports are increasing, the current account is positive, and the fiscal account is positive. Among these positives, Argentina's relationship with private creditors and the IMF has improved, and investment is recovering. These indicators show a dramatic improvement in the Argentine economy in 2003. On the negative side of Argentina's economic performance, the risk premium has increased, investment, though increasing, is not compensating for the depreciation seen in stock, the financial system remains fragile, and the government is backtracking on

its privatization reforms.

Moving from his evaluation of the economy, Loser focused on the issue of the repayment of the debt. He recommended that Argentina continue to improve relations with creditors to increase future investment by agreeing to a higher repayment. Currently, the Argentine plan is to pay back only 10% of the debt. Loser recommended a repayment of 25% of the debt after Argentina negotiates in 'good faith' through a cooperative approach with creditors. Accordingly, Argentina will experience economic growth in the future through investment and creditors will be more likely to accept the offer. If Argentina remains inflexible and does not repay, Loser warned that the country will be isolated from the rest of the world as the cost of the debt would be distributed to countries that have lent in surplus to the IMF, including fellow Latin American countries such as Mexico and Chile.