
Argentina

Bank failure caused by IMF

by Cynthia Rush

The Argentine government's May 10 decision to liquidate the Banco de Italia y Río de la Plata, the third-largest and one of the country's oldest banks, provoked an immediate run on Buenos Aires banks and sent shockwaves through the international markets. International commentators are busy "analyzing" the case; but what no one wants to say is that over the past eight years, the International Monetary Fund (IMF) and private creditor banks deliberately created the conditions for such failures to occur.

Now that the process has begun, banks like New York's Citicorp are moving in like vultures, just as they are doing with the Savings and Loans in Maryland and Ohio. To cover up their own bankruptcy status, they must loot whatever real wealth still remains in the Argentine economy, even if they kill a few million people along the way. Citicorp President John Reed announced in a Buenos Aires press conference May 17 that his institution has already discussed the possibility of buying up a portion of the failed Banco de Italia.

There is probably not a bank in Argentina today that is *not* bankrupt. José Martínez de Hoz, finance minister under the previous military regime, saw to that. Between 1976 and 1981, de Hoz and his Swiss banking friends turned Argentina into a center for hot-money speculation, and contracted billions of dollars in foreign loans for their illicit activities. As speculation replaced investment in productive industrial development, legitimate banking practices ceased. Growth in the financial and service sectors quickly outstripped industrial growth.

Banco de Italia y Río de La Plata was one of the banks that "flourished" under the Martínez de Hoz regime. Following the 1976 coup, it opened overseas branches in New York, Sao Paulo, and Caracas, as well as in Panama's offshore banking center. The Eurodollars and "Caribbean-dollars" that flowed into the country for short-term investment at high interest rates allowed Banco de Italia to make loans to such

large corporations as Celulosa, Arbol Solo. But these companies eventually collapsed as a result of the military junta's monetarist policies, and Banco de Italia was left holding the bag. At its closing on May 10, it had \$230 million in foreign debts which it could not pay.

Argentine President Raúl Alfonsín had a chance to reverse the economic mess that he was handed when he took power in December 1983. Instead he acquiesced to IMF pressures. The result today is a 30% monthly inflation rate, 40% monthly interest rates, no credit for investment in production, and a 30% drop in real wages so far this year.

The set-up

Friends of the IMF and the creditor banks carefully orchestrated events surrounding the Banco de Italia failure, to insure that Alfonsín doesn't back down from applying the International Monetary Fund's murderous "war economy." News of the bank's closing activated the capital-flight apparatus that has remained intact since the Martínez de Hoz days. In panic, thousands of citizens began to withdraw their dollar deposits in local banks—the total dollar amounts circulating in Buenos Aires are almost equivalent to the official money supply—and took them out of the country.

Many of those dollars ended up in Montevideo's offshore banking center, across the Río de la Plata. Argentines hold an estimated \$25 to \$30 billion in deposits abroad. The outflow of dollars finally forced the government to declare a 120-day freeze on dollar accounts on May 18.

The New York banking community professed bewilderment over why Alfonsín had shut down such a prestigious bank, buzzing that the move created a "lack of confidence," which jeopardized Argentina's ongoing negotiations with the IMF, and the \$4.2 billion commercial bank loan package which hangs on an IMF agreement. In the midst of the panic, Citicorp President John Reed descended on Buenos Aires to threaten the government that it would be declared a substandard debtor nation, if it did not come up with a "reliable and coherent" austerity program, and sign with the IMF by June 10. New York's financial press chastised Argentina for failing to meet a 180-day deadline during the first week of May, for payment of a portion of \$900 million in overdue interest.

Reed admitted that "some members" of the 11-bank steering committee of Argentina's creditors, which happens to be led by Citibank, are pressuring the government to assume the \$230 million in Banco de Italia foreign debt. But Reed insisted that Citicorp was not interested in having the government take such action. Solutions to these problems are better left in "private hands," he explained. The May 14 edition of the daily *Clarín* confirmed that the creditor steering committee is demanding that the central bank assume Banco de Italia's debt. Foreign banks reminded the central bank that, according to the change in the national bankruptcy law, which creditor blackmail forced through in 1983, foreign creditors now have the same rights before the law as Argentine creditors.