Bad news for Menem: IMF plan is failing

by Gerardo Terán Canal

As of the end of the first quarter of 1993, all the optimism displayed by Argentine President Carlos Menem over the "success" of his economic program, the so-called Convertibility Plan, has dissipated. The Convertibility Plan, announced by Finance Minister Domingo Cavallo in April 1991, is based on dollar-peso parity, and is heralded by the international banking community for lowering inflation and stabilizing the economy.

In early 1993, Menem himself had boasted on several occasions that because his economic program had yielded such excellent results, this would be the year of increased social spending. "We are going to spend because we have the money," he shouted. However, the International Monetary Fund (IMF) delegation which visited Buenos Aires in mid-February to review the government's compliance with guidelines set by the debt reduction plan named after former U.S. Treasury Secretary Nicholas Brady, threw cold water on this enthusiasm.

The IMF mission determined that the fiscal surplus target of $3.1 billion which Cavallo promised for 1993, would now have to be $4.4 billion because the government had failed to meet certain agreed-upon goals.

First, Menem had promised to have the Pension Reform bill for the privatization of the pension system approved in the Congress by the end of 1992. But as of early April, that hasn't happened. The reform would guarantee between $3 and $4 billion annually in internal savings.

The Fund is also worried about the fact that the government's goals for 1993 tax revenues had to be altered in February. According to the new projections, revenues will be 10% lower than estimates made at the end of 1992. Tax revenues dropped during the first two months of this year, due largely to the drop in imports of consumer goods. Income tax revenues increased by 12% in 1992, covering only the inflation rate, but revealing that so-called industrial productivity has not yielded positive results. The only revenues which increased were those from the Value Added Tax (IVA), which are dependent on consumption which is now contracting.

Debt and deficit growing

Argentina's 1992 trade deficit of $2.9 billion is also a problem for the Fund. The Menem government promised at the beginning of 1992 that its trade deficit would be $1 billion at most for that year. But imports increased from $8.3 billion in 1991 to more than $14.3 billion for 1992, while exports remained at the level of $12 billion. This means that for 1993, Argentina will need foreign financing of at least $8 billion, since servicing the debt will require about $5 billion.

Then there's the $30 billion in internal debt, of which $15 billion exists in the form of dollar-denominated bonds whose value could increase exponentially should there be a currency devaluation. This is very short-term debt, largely acquired to pay the $8 billion the government owes to retirees, and $7 billion to suppliers. This year, the first $2.5 billion in dollar-denominated Bocon bonds held by retirees, issued in 1989, will come due.

An additional problem is the fact that there is not much income to be obtained from privatizations. The only non-privatized companies remaining are the state oil firm, Yacimientos Petrolíferos Fiscales (YPF), a few petrochemical companies which have no buyers, and a small number of provincial companies, whose sale proceeds would be used to cover provincial expenses. What has the banks worried is that the goals established by the IMF for 1991 and 1992 were met because of income from privatizations.

Looting pension funds

At this point, it would appear that President Menem will be forced to pass the Pension Reform by decree. The political opposition, the Radical Civic Union (UCR) and even congressmen from the ruling Justicialista Party, have forced the government to amend the initial plan and allow the state-run Banco de la Nación to also compete in the market for the Private Retirement Financial Administrators, or AFJP. These are the entities which will manage the funds of the privatized pension system. This amendment caused "a drop in banker optimism," commented *El Economista* on March 5, because the "Banco de la Nación can absorb a large part of the contributors to the system, squeezing out the private sector." According to the weekly, statistics show that "state banks have significant support among the population."

Estimates show that by the year 2000, liquidity in the pension system could reach $40 billion; banks such as Citibank, Roberts Bank, and First Boston, all linked to local capital and banks, hope to have total control over these funds. Some financial analysts are warning that the currency run which occurred last November could happen again if "free market and free competition" in the AFJP markets is in any way hampered.

Immediately after the government made known the new fiscal goals established by the IMF, Menem demanded a 10% reduction in the 1993 budget, even though it had already been approved by Congress.

There is only one solution for the problem of the trade deficit: reduce imports—which would violate the IMF's model of an "open economy" and also affect tax revenues—and increase exports. But Finance Minister Cavallo says he has no intention of making any changes in government economic policy.