

International Credit by Renée Sigerson

Buying out Argentina cheap

If the combined depression and financial shakeout continues, much of industry won't survive there.

Argentine investors, now moving foreign exchange out of Argentina at the rate of \$1.5 billion per month, are waiting for another "maxi-devaluation" in the range of 30 to 40 percent before reclaiming local-currency assets. In the process, the Argentine economy is set for a shakeup in which that country—once the most industrialized in Latin America—could devolve into a resources exploitation economy.

According to sources at the Milan-based Banco Ambrosiano, one of Italy's oldest banks, Italian family interests long based in Argentina have moved money out in anticipation of a devaluation that will enable them to buy back liquidated assets at a substantial discount. Banking sources guess that such a devaluation must take place in less than three months, due to the rapid rate of exhaustion of the country's foreign-exchange reserves, despite substantial nationalist opposition.

The wave of capital flight began Feb. 2, when outgoing Economics Minister José Alfredo Martínez de Hoz devalued the peso to 2,600 to the dollar, or by 10 percent. De Hoz's unexpected "maxi-devaluation" ruptured a speculative cycle fed by more than 100 percent inflation, and monthly "mini-devaluations" of 2 to 3 percent.

Although the "maxi-devaluation" was presented as an "anti-inflation" measure by the government, the collapse in peso value will

not help Argentine price levels. Apparently, the government's maneuver represented a controlled shakeout by prior agreement with foreign and some important local investors.

The net result of the exercise will be to give foreign and internationally based local investors a much bigger chunk of the Argentine economy at an extremely reasonable price.

The initial effect of the devaluation and capital exodus has been a spectacular series of major bankruptcies, including the default of the country's biggest holding company, Sasetru. Sasetru defaulted on a \$10 million payment to the Banco de Italia y Río de la Plata—part of the Italian financial nexus in Argentina—and the bank decided to bring the big company under.

De Hoz deputy Martin Braun Lasala told the press last week, "Competition was central to reducing the rate of inflation. Those companies who didn't believe we would go through with the policy, or failed to foresee its implications, are now the ones doing the complaining."

The Economics Ministry's cavalier attitude towards the difficulties of the financial sector is interesting, after the liquidation of 32 financial institutions during the past several months. These include the Banco Hispano Corfin (\$204 million in deposits) and the Banco del Norte y Delta (\$139 million in deposits). Many smaller institu-

tions, additionally, have undergone forced mergers.

Even before the expected big devaluation, Bank of America (the American institution with the closest ties to Italian finance) jumped in, with an extraordinary offer to buy out the big Banco Internacional. Although Bank of America spokesmen say that negotiations are still underway, an Argentine official told *EIR* that the California institution came in with a bid three times larger than that of the second-highest bidder, persuading the Argentines to conclude the sale immediately. In another development, the French government-owned Crédit Lyonnais paid \$48 million for the Banco Tornquist, with \$257 million in deposits.

While the capital fight continues, more bankruptcies are expected. The devaluation policy has turned out to be a one-way bet for international operators who want to pick up local assets cheaply. But the process will throw the already depressed Argentine economy even further toward deindustrialization. The last four years of "anti-inflation medicine" administered by monetarist de Hoz has resulted in, for example, the reduction of Argentine automakers from eight to four.

Argentine output is dropping sharply. Commented Manuel Sacerdote, senior vice-president of Banco de Boston: "The fact that manufacturing output fell by 6 percent compared with the second quarter of 1979 came as a shock. This was a direct result of the government stabilization program and the opening of the economy [to foreign investors]. Increased competition in Argentine markets and high real interest rates are the main reasons for the slump."